Techniques of Credit Appraisal. Jangid, P. L. and Patodiya, S. N. Jaipur, Bankers' Book Publishing House, 1981. pp 264, Rs. 45.00.

The volume under review, as the authors claim, is a 'Credit Appraisal Kit'. The authors' effort is to present a practical approach to credit appraisal including the concepts and techniques used in the area.

The book is divided into twenty chapters beginning with a chapter on 'management functions in an enterprise', and ending with the five chapters respectively devoted to, production management, marketing management, financial management, service and trade management, and management accounting. It is the remaining fourteen chapters which are devoted to credit appraisal and the various concepts and techniques used for the purpose. The discussion in this part of the book can be roughly classified as : analysis of financial statements ; analysis of cash and working capital ; analysis of cost-volume-profit relationships, capital budgeting and investment analysis. These analytical tools and techniques are attempted to be integrated in the credit appraisal framework to some extent in the chapter on 'Term Lending : Project Appraisal', with the help of an example.

The discussions, which form the main theme of the book, can at best be considered as a faithful summary of the materials covered by standard textbooks In the area of financial statement analysis, which can be a formidable tool in credit appraisal, the authors have hardly any contribution to make other than the list of conventional ratios. The authors' seems to have over looked the fact that, for the purpose of credit appraisal, one would have to resort to dynamic and unconventional ratios which would tell us more about the debt paying ability, defensive position and future health of the firm. Further, it is not the mere computation and narration of the ratios which can be useful in credit appraisal. but an integrated analysis considering the ratios in groups rather than in isolation.

The discussions on cash flow, break-even and investment analysis are fairly satisfactory and sufficient to provide a lay reader adequate understanding of these vital areas. The chapters on cash management and break-even analysis are reasonably elaborate.

However, one should be very cautious in categorically stating whether the book has succeeded in providing a well rounded volume on credit appraisal A major shortcoming of the book, one could hardly fail to notice, is that there is very little effort to present an integrated view of the decision parameters, which can be developed and used based on different tools and techniques of analysis.

This volume should be of considerable interest to the interested audience in that it presents in fairly lucid terms with clear illustrations the plethora of tools and techniques employed by the financial analysts along with their applications in different areas of management.

A little more careful editing and proof reading should have enhanced the utility of the volume to the non-technical readers. The errors, printers' or otherwise, at places can be highly confusing to a reader without any formal training in financial analysis. A few examples are : the illustrations on page 23 appearing as :

$$\text{Creditors' Funds} \frac{\text{Rs. } 5{,}819+2{,}160}{\text{Rs. } 13{,}821} = 57.8\%$$

Total Assets $\dfrac{\text{Rs. } 3{,}388+2{,}280}{\text{Rs. } 9{,}487} = 59.7\%$

can be rather confusing to any lay reader, as the figures represent $\dfrac{\text{Creditors Funds}}{\text{Total Assets}}$ for 1974 and 1975, respectively, as per the figures provided in the example. Further, in the figure 1 'Cash Flows through a Business' (p 104) the box showing, 'purchase of capital stock' with an arrow implying an inflow of cash is incorrect in that it is 'sale of capital stock' which result in inflow of cash ; not to mention the confusion due to terminology for most of the ordinary Indian readers.

The index and bibliography (ofcourse, without any details of either the publisher or the place or year of publication) at the end definitely adds to the value of the book.

N. Ramachandran
Research Fellow, Finance and Control Group, IIM Calcutta

Stipulation and Exercise of Convertibility Options by Financial Institutions. U. K. Srivastava and N. M. Oza. New Delhi, Wiley Eastern Ltd. pp 159. Rs. 75.00.

One of the virtues of Debt financing, according to standard text books on Financial Management, is that it does not dilute the 'control' of existing shareholders. The stipulation of convertibility clause by Financial Institutions has diluted this virtue of debt financing, though to a limited extent, in the Indian Corporate Sector. Ever since its stipulation by the Financial Institutions, the convertibility clause has come under considerable criticism, especially from the Private Corporate Sector. It is looked upon by the Private Corporate Sector as a surreptitious means of gaining control by the government. Financial Institutions, on the other hand, consider it as a means of sharing the gains from the Projects in which they have a larger financial stake than the promoters themselves. In any case considerable controversy has arisen around the Convertibility Clause. Any serious study in this controversial area is welcome at this stage when many of the loans sanctioned earlier will soon come for conversion.

The present work by Srivastava and Oza is a study "designed to analyse their (Financial Institutions') experience with respect to (i) stipulation of convertibility options, (ii) decision criteria used for the exercise of options and related problems, and (iii) suggest alternative decision criteria which can incorporate risk and uncertainty involved in decisions to convert or not to convert in case of profitable and loss incurring companies at the time of decision-making". The core part of the book is contained in Chapters 3 and 4 consisting of about seventeen pages. Six case studies have been presented to highlight current practices of taking conversion option decisions by the Financial Institutions. Details given in the Appendices and tables presented in the text indicate the pains taken by the authors to pull requisite information from the records of Financial Institutions.

The decision to opt for conversion or not will arise a couple of years after the implementation of the project. In the case of units that are running in losses a detailed analysis of the alternative is not really required. Invariably the Institutions do not exercise the option. In the case of profitably run units the Institutions have to take a decision in regard to conversion. The present practice in this