Name: Suja Sekhar C
Roll No: 1202001
Designation: Doctoral Candidate, IIM Tiruchirappalli
Title of Dissertation: Three Essays on Capital Market Interactions by Indian Firms

Abstract of Dissertation

This dissertation, organised as a collection of three essays, empirically examines the capital market interactions of Indian non-financial firms. The period of study, from 1995 to 2014 is important as it traces the evolution and strengthening of capital market regulations and corporate governance norms in India. The improved transparency and increased investor participation in the equity markets helped provide an additional avenue to corporates hitherto primarily dependent on banks and financial institutions for capital. The first essay titled 'Determinants of the Going Public Decision and Impact of BG affiliation', analyses the determinants of Initial Public Offerings of Indian non-financial firms and presents a comparison between Business Group (BG) affiliated firms and standalone firms in the context of listing. Additionally, this essay examines how a BG with its portfolio of listed and unlisted affiliates, decides which of its eligible member firms to be chosen to go public. The impact of BG affiliation decision to go public and the BG's choice of affiliate to be listed are relatively unexplored avenues in literature. Further, we explore the utilisation of issue proceeds. We find that younger, larger, profitable firms with high sales growth, high capital expenditures tend to go public. Our results suggest that there is industry clustering in IPOs. Consistent with the presence of internal capital markets, the impact of BG affiliation is negative, indicating that BG-affiliates are less likely to go for IPOs. BG firms are older when they list, which is indicative of an `incubator' environment. Less profitable BG firms list as compared to standalone firms. In a subsample analysis of eligible BG firms, the affiliate which invests in the financial assets of other group affiliates is more likely to be taken public. The reputation of the group has a positive impact on the choice of affiliate to list. In the post-issue analysis on examining the utilisation of issue proceeds, we find that BG firms tend to retain cash in the initial year and spend it on capital expenditure.

The second essay on 'The Choice of Debt versus Equity and Impact of Banker-on-Board' examines the debt-equity choice of listed firms and the impact of the presence of a nominee director of a Bank/Financial Institution on the issue-choice. The presence of a financial expert on board is highly relevant in the emerging market context in enabling access to debt and equity markets and enforcing better corporate governance norms within the firm. The essay separately examines the case of sole (either debt or equity) and dual (both debt and equity) issues. Additionally, for sole debt issues, we examine if the presence of a Banker on Board influences the choice of bank loans versus other forms of borrowing ('lower' level). We find that larger, more profitable firms with higher proportion of tangible assets and higher levels of industry median leverage are more likely to go for debt issues, consistent with the tradeoff theory of capital structure. Firms with higher levels of existing leverage, issue equity. Firms with higher values of Tobin's Q, larger stock returns in the past year go for equity issues, consistent with the market timing explanation. For sole issues we find that the presence of a Banker on Board favours equity issues. In examining sole debt issues, our results suggest that if the firm is Business Group affiliated, it is less likely to go for bank loans as against other loans. In robustness tests, we attempt to control for the endogeneity issue in that the determinants of the presence of a Banker on Board could be the same as those that influence the debt-equity choice. We use board size as the exclusion restriction in the treatment equation for Banker on Board.

The third essay on the 'Choice of Equity-selling Mechanisms by listed firms in India', explores the factors that influence listed firms' preference for private placements in comparison with other equity raising mechanisms. We focus on the impact of promoter (insider) ownership on the likelihood of private placements. A comprehensive examination of the choice of equity selling mechanisms with an assessment of the impact of promoter ownership does not seem to have received adequate attention in literature. The results show that the probability of private placements increases with promoter ownership in firms with promoter ownership less than 27% and more than 52%. At lower levels, private placements to a small, select group of sophisticated investors brings about greater monitoring and adds to firm value, and at higher levels, the interests of the owner-manager and the incoming blockholder are better aligned. At the intermediate level (27-52%), we observe that promoter ownership is negatively related to probability of private placements, as an entrenchment effect is more likely to dominate, with the incumbent ownership reluctant to allow dilution of control. In a sub-sample analysis, the results suggest that listed Business Group affiliates with lower promoter ownership (as compared to the median promoter ownership in the group) are less likely to go for private placements, to preserve the private benefits of control.

Keywords: Initial Public Offering, Going public, Business Groups, Internal Capital Markets, Debt-equity choice, Banker on Board, Financial Expertise, Corporate Governance, Seasoned Equity Offerings, Private Placements, Public issues, Insider ownership, Corporate Control

JEL: G30, G32