

The Trinity Effect of Corporate-Political-GOB relationship over Debt Structure: Evidence from India

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Agenda

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3. Data and Research design
4. Results and Extensions
5. Conclusion
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Introduction

- The present Work tests the genesis of TBS crisis through a detailed analysis of corporate-political connections and their debt structure.
- The Economic Survey of India (2017-18) indicates an unprecedented rise in the corporate loan defaults and IBC proceedings in India ever since the start of the banking crisis in 2016.
- The mid-2000s investment boom is expected behind this unprecedented situation.
- GAP: 1. Static Analysis of Khwaja and Mian (2005) for PCFs of Pakistan.
2. Srinivasan and Thumpy (2017) reports the significant role of corporate-banking relationship.

Objectives

- Role of corporate-political connections in explaining the debt structure of Indian firms.
- Different categories of these connections (weak or strong; persisting or dynamic) help explain the role of banks in providing easy loans to PCFs.
- Whether banks provide long-term credit to the firms without any cherry-picking on their political connections?
- Corporate-Political-GOB trinity may help decipher the underlying reasons for high corporate loan defaults and the TBS problem in the country.
- Understanding the sector specific trinity effect. Do some sectors outperform the default as compared to others?

Data and Research Design

- Sample: S&P BSE 500 (excluding financial firms)
- Time period: 2003 to 2016.
- Data regarding firms' financial indicators are taken from the Thomson Reuters DataStream database and for their banking relationship we use the CMIE Prowess.
- Data regarding campaign contributions to National Political Parties (BJP, INC) are taken from ECI website.

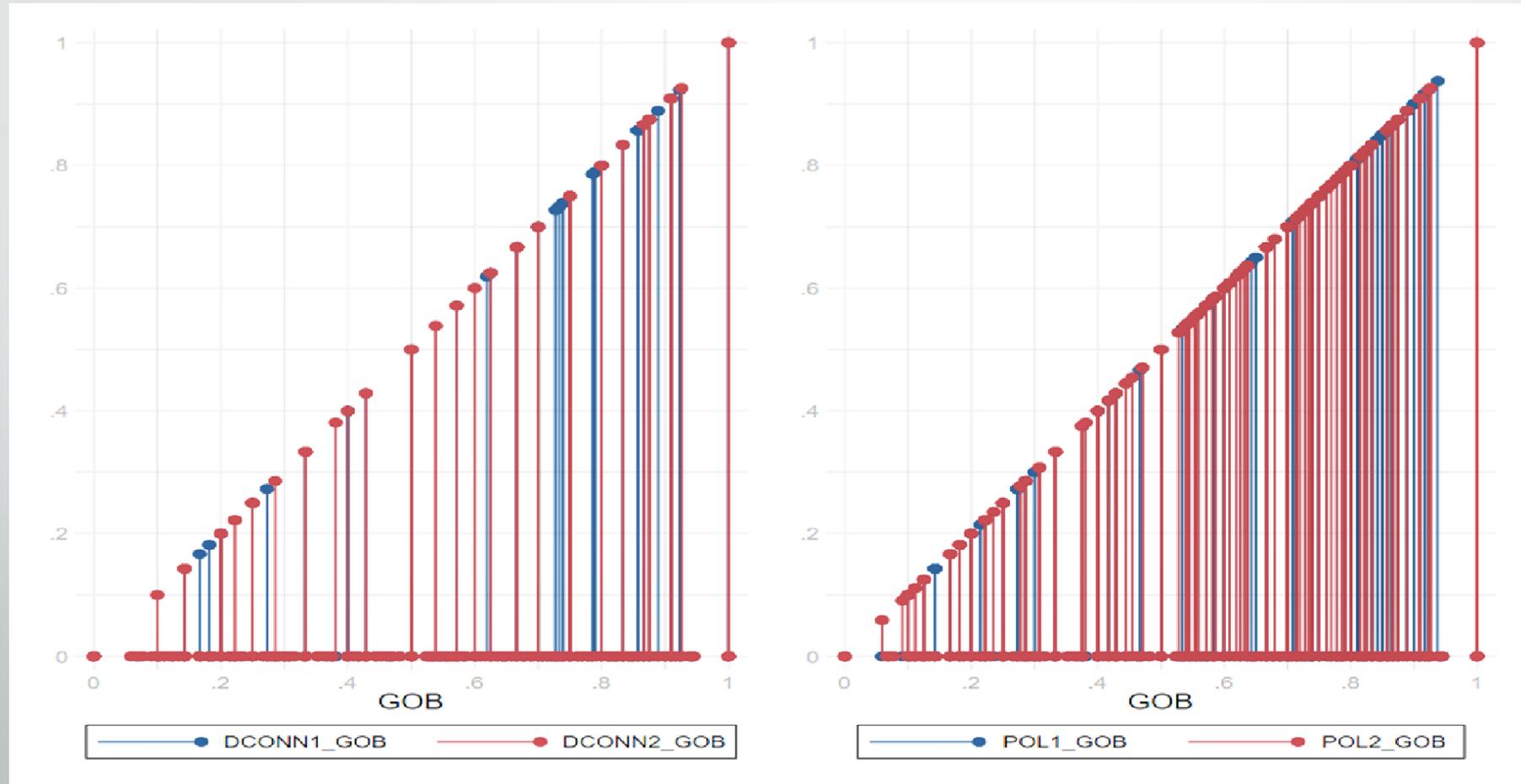
Data and Research Design cont...

Variable Construction

- **Corporate-Political Connections:**
 - **Dynamic Connections:** A firm or any of its subsidiary monetarily contributes to any of the national political parties (BJP or INC) in a particular year.
 - **Persisting Connections:** At least once the firm or any of its subsidiary contributes to a national party (BJP or INC).
 - **Strength Effect:** On the lines of Cooper et al. (2010) firms contributing to a single party are weakly connected whereas those contributing to multiple parties are strongly connected.
- **Corporate-Banking Relationship:** Generate a score variable for each firm's banking relationship for each year. Figure below shows a higher preference of strong PCFs for GOBs.
- **Debt Structure:** Following Huang and Shang (2019) constructs two forms of debt variables i.e. book & market.

Data and Research Design cont...

Interaction of Dynamic and Persisting Connections with GOBs (Fig. 1)



Data and Research Design cont...

Empirical Strategy

- $DEBT_{it} = \gamma_0 + \beta_0 DEBT_{it-1} + \beta_1 POL + \beta_0 Firm_Factors + \beta_3 COUNTRY_FACTORS + \alpha_k + \alpha_t + \varepsilon_{ijt}$

Further includes the strength and POL-GOB relationship in the specification.

- Beside the OLS technique study also uses the two-step robust GMM approach.

Results & Extensions

GMM results of Corporate-Political connections and GOBs

VARIABLES	LTD_BV	LTD_MV	LTD_BV	LTD_MV
GOB	-0.651	-0.294	-0.0447	-0.514
	(1.223)	(1.085)	(0.571)	(0.802)
DCONN_ONE	0.404	0.339		
	(0.822)	(0.853)		
DCONN_BOTH	-1.522#	-1.635*		
	(0.966)	(0.959)		
DCONN1_GOB	-0.820	-0.583		
	(0.958)	(1.077)		
DCONN2_GOB	2.380*	2.422*		
	(1.365)	(1.364)		
POL_ONE			0.172	0.528
			(0.617)	(0.519)
POL_BOTH			0.842	0.440
			(0.550)	(0.550)
POL1_GOB			1.372	0.602
			(1.143)	(0.807)
POL2_GOB			2.346**	1.306#

Results & Extensions Cont...

Summarized

	Effect on LTD (BV and MV)	Effect on LTD (BV and MV)
Dynamic WPCs	INSGF	INSGF
Dynamic SPCs	Pos. SGF	Neg. SGF
Persisting WPCs	INSGF	INSGF
Persisting SPCs	Pos. SGF	INSGF
Dynamic WPC*GOB		INSGF
Dynamic SPC*GOB		Pos. SGF
Persisting WPC*GOB		INSGF
Persisting SPC*GOB		Pos. SGF

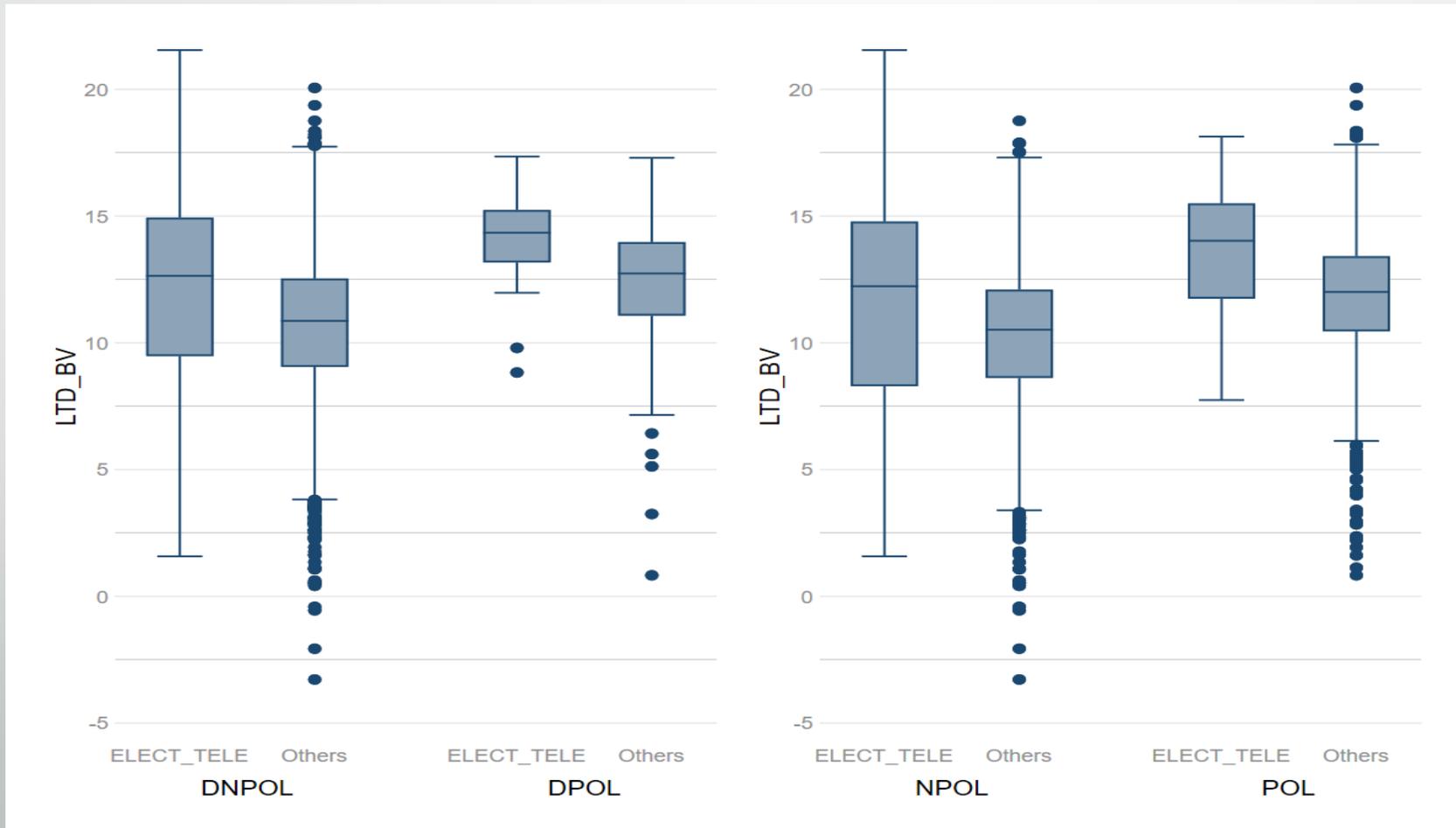
Results & Extensions cont...

Competency Analysis of GOBs

VARIABLES	INT_EXP	RLD	PRV_BD
DCONN_ONE	0.119 (0.442)	-0.536 (0.581)	-0.884 (0.641)
DCONN_BOTH	0.511*** (0.193)	1.448*** (0.479)	0.541* (0.307)
GOB	-0.0145 (0.127)	0.501** (0.251)	-0.246 (0.190)
DCONN1_GOB	-0.500 (0.722)	1.291 (0.837)	0.488 (1.050)
DCONN2_GOB	-1.014**	-2.207***	-0.659

Results & Extensions cont...

Electronic and Telecommunication sector



Conclusions

- Only strong political connections have a significant effect with higher returns for persisting connections in comparison to dynamic ones.
- The efficiency of GOBs is significantly affected by their favouritism towards PCFs.
- Further, find a support to the inefficiency of GOBs particularly for the Electronics and Telecommunication sectors.

Forthcoming Research

- We are developing a fraud risk mitigation mechanism.
- The study will discover the relationship between firms political connections and their financial reporting standards (FRS).

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Thank You for your attention !!