



A STUDY ON IMPACT OF LIBERALIZATION REFORMS ON CAPITAL STRUCTURE OF SELECTED LISTED INDIAN COMPANIES

Commerce

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ABSTRACT

This paper attempts to analyse impact of liberalization reforms on capital structure of selected listed Indian companies. Descriptive analysis using ratios and Regression analysis are used to estimate the impact of regulatory policy changes on various components of capital structure. Indian companies have also adopted new domestic routes of capital issues like book-building offer, private placement in the form of QIP during post reform period in addition to traditional routes like IPO, FPO, rights issues and ESOP. Debentures and bonds have been issued by Indian companies in domestic capital market through public issue and private placement. The international sources of funds like ADR, GDR, EDR, SDR, ECB, ENCB have been by Indian companies heavily during post reform period to raise funds from foreign capital market. Descriptive and statistical analysis of the data was done to assess the impact of change in regulatory policy on issue of domestic equity for selected companies during post reform period.

KEYWORDS:

ADR, GDR, Euro Issue, Capital Structure

Introduction

During post reform period, foreign capital market was opened for Indian companies under new market regulations. Under the disclosure based behavioral market regulations, Indian companies can easily raise huge amount of funds through euro issues speedily and at low cost. On the other hand, liberal regulations create problems of timely and efficient use of funds and risk of abnormal loss due to fluctuation in exchange rate. Thus the liberal and market driven regulations have governed the capital structure of Indian companies largely. Even after liberalization, regulations have not reduced but they have rather increased to regulate the varieties of domestic and international sources of funds and their routes of capital issues and protect the interest of all stakeholders. Therefore the bearing regulations are bound to have a significant impact on the capital structure of Indian companies but whether it is really so or not needs a full understanding. Hence, the study is significant from the viewpoint of companies, regulators, stakeholders and researchers.

Literature review

As per Chartergy and Sinha (2009), the Qualified Institutional placement (QIP) became more popular than Private Equity (PE) in the year 2009. During 2009, Indian listed companies raised Rs.32,000 crore, which was 10 times higher than the funds raised in 2008 whereas the funds raised through PE in 2009 was reduced to half of 2008. The reasons behind the unpopularity of PE and increased popularity of QIP were the requirement of a place in Board of Directors for PE participants, strict due diligence process adopted by PE participants and longer procedural period for raising funds through PE.

Reddy (2006) analyzed the growth of new capital issues in India during the period of 1991 to 2005-06 with a view to bring out the diversities in the capital issues as well as factors affecting the diversity such as ownership, industry, size, region, and type of issues. During this period public sector raised more funds than private sector through IPO. In the first half of the post liberalization period, the public and right issues contributed a major share in the total number and the amount of capital issues but in the second half only private placements dominated the capital issues. In terms of region, the western region contributed more than 50% of the total capital issues. Mehta et al (2009) made the field research study by using the responses from 2008 mail survey, conducted for private sector enterprises in India, to examine the managerial opinion about stock dividend (bonus shares) and the motives for issuing them. The sample consisted of 544 firms that issued stock dividend during the

ten years from 1998 to 2007. It was found that the main motive for issuing stock dividend was to increase the total returns for the shareholders followed by improving liquidity.

Malhotra et al (2007) studied share price reaction to the announcement of bonus issue for a sample of Indian Companies. Standard event study methodology was used to study the bonus issue announcement reaction. Bonus issue announcement yielded negative abnormal returns around the announcement date. It was also observed that there was no information leakage prior to the announcement. There was an insignificant reduction in the liquidity ratio after the announcement of bonus. Cross sectional regression revealed; that the numbers of shares issued convey a positive signal to the investors. The size of the firm issuing bonus shares did not affect the abnormal returns of the company. The study supported signaling hypothesis and cash substitution hypothesis.

Mohanty (2006) studied the reaction of investors towards the announcements of bonus issues. The results of the study indicated that the investor did not give importance to the announcements of bonus issues.

Objectives of the study

To analyze the whole process of impact of regulatory policy changes on capital structure of Indian companies, following objectives were set:

- (i) To study the theories of capital structure propounded by various experts.
- (ii) To study the changes in regulations made by prevailing regulatory authorities in India from time to time regarding domestic and international sources of equity and debt fund and their routes of capital issues for Indian companies since 1947 to 2014-15.
- (iii) To study the scope of availability of equity funds for Indian companies through various domestic sources and routes of equity issue as a consequence of changes in economic policy and regulatory norms for selected Indian companies in the post reform period, i.e. 1991-92 to 2014-15.
- (iv) To study the scope of availability of debt funds for Indian companies through various domestic sources and routes of debt issue as a consequence of changes in economic policy and regulatory norms for selected Indian companies in the post reform period.

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(v) To study the scope of availability of equity and debt funds for Indian companies through various international sources and routes of equity debt issue as a consequence of changes in economic policy and regulatory norms for selected Indian companies in the post reform period, i.e.1992-93 to 2014-15.

(vi) To study the overall impact of change in economic policy and regulatory norms on capital structure of selected Indian companies and analyze the changes in capital structure of the selected companies due to regulatory changes and other factors.

(vii) To identify the most crucial regulatory changes for improving the capital structure and further direction of required policy changes.

Hypothesis

Hypotheses are the basic assumptions regarding occurrence of certain event in connection with the objectives set for the proposed research. To achieve above objectives of the study, research was conducted based on the following research hypotheses:

Different theories of capital structure have been developed over the time to analyze the capital structure.

Various regulatory authorities have changed regulations regarding various sources of domestic and international equity and debt fund and regulations regarding various domestic and international routes of capital issues to facilitate Indian companies to raise funds.

Different domestic sources of equity funds and their routes of issue have been expanded to enable Indian companies to change their capital structure from time to time backed by regulatory policy changes.

Different domestic sources of debt funds and their routes of issue have been expanded to enable Indian companies to change their capital structure from time to time backed by regulatory policy changes.

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Indian companies have responded to regulatory policy changes.

The capital structure of Indian companies has been affected by regulatory policy changes.

Time Period

The impact of regulatory changes on selected companies was studied during post reform period i.e. from 1991-92 to the financial year 2014-15.

Companies listed on BSE

On regional stock exchanges the number of companies is very less. Generally, companies established in the respective state and blue chip companies are listed on regional stock exchanges. Out of nation wide stock exchanges the number of listed companies on BSE on 31st March 2001, were 4826 and on NSE were 1228. Indian companies differ from nature of business, financial performance, market price, market capitalization, net worth, share holding pattern, dividend record etc. Bombay Stock Exchange (BSE) is the oldest stock exchange in Asia and has the greatest number of listed companies in the world, with 4826 listed as of August 2007 (BSE key statistics, 2007). As large number of companies from all sectors are listed on BSE, companies listed on BSE as on 31st March, 2007 were taken as population.

Data analysis

Descriptive analysis using ratios and Regression analysis are used to

estimate the impact of regulatory policy changes on various components of capital structure.

Findings

(i) Indian companies have also adopted new domestic routes of capital issues like book-building offer, private placement in the form of QIP during post reform period in addition to traditional routes like IPO, FPO, rights issues and ESOP.

(ii) Different kinds of debentures like convertible debentures, redeemable debentures, partly convertible debentures, zero coupon debentures, participating debentures, convertible bonds, deep discount bonds, debentures and bonds with convertible warrants etc. were more popular among Indian companies and investors during 1990s. Debentures and bonds have been issued by Indian companies in domestic capital market through public issue and private placement.

(iii) The international sources of funds like ADR, GDR, EDR, SDR, ECB, ENCB have been by Indian companies heavily during post reform period to raise funds from foreign capital market.

(iv) Descriptive and statistical analysis of the data was done to assess the impact of change in regulatory policy on issue of domestic equity for selected companies during post reform period

(v) In case of total amount of domestic equity capital raised through public issues by non-government public limited listed companies in India at all India level, only 4% of the amount was raised during pre reform period while remaining 96% of the amount was raised during post reform period.

(vi) The activities of private placement through preferential allotment was considerably increased during last five years i.e. from 2004-05 to 2008-09 at all India level and for the selected companies both.

(vii) Regression analysis was used to estimate the impact of regulatory policy changes on various components of equity issues. There was significant impact of regulatory policy changes on the amount of issue of equity shares through IPO and FPO, rights issues and private placement.

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