

Essays on Corporate Cash Holdings

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Abstract

Corporate cash holdings continue to be one of the puzzles in corporate finance which have interested both academicians and policy makers. While much academic discussion on it has taken place in the context of advanced economies like USA, there has been but limited discussion on the same for emerging markets. Post the financial crisis of 2008-09, difference in growth rates between developing and advanced economies have widened, with the former growing at a faster rate than the latter. Based on Reports of International Monetary Fund and *World Economic Outlook Database*, we find that, as of April 2018, the Gross Domestic Product based on Purchasing Power Parity (PPP) share of world total of *Emerging Market and Developing Economies* is 59.25 per cent as opposed to 40.75 per cent of *Advanced Economies*. On comparing the Gross Domestic Product based on Purchasing Power Parity (PPP) share of world total of *Major Advanced Economies (G7)* with that of countries belonging to *Emerging and Developing Asia* we find that the share of the latter is ahead of the former by 3.12 percent (as of 2018), and is projected to go up to 10.67 per cent in 2023. While *Advanced Economies* are taking a back seat for global growth, *Emerging Markets and Developing Economies* are showing a lot of potential for business.

India is one of the prominent countries of *Emerging and Developing Asia* which has the potential to be a global leader. Improvement in India's ranking of *ease of doing business* by World Bank has improved its position in the World Economic Forum as well. At the same time, the country seems to be undergoing *financialization*, viz. the transformation of its economic system by entrusting the capital development of the nation to the financial sector. The sudden surge in

External Commercial Borrowings has the possibility of increasing liquidity hoarding tendencies among non-financial firms as well. The changing economic conditions and the growing importance of India in the international markets motivate us to study corporate liquidity management practices in India.

Financing of firms in India has been a topic of interest for academicians for long. The first essay discusses the evolution of an informal alternative in-kind financing technique which opens up a funding channel for firms. We go a step ahead and show how the liquidity of firms can play a role in attracting the in-kind funding avenue to them.

While the first essay elucidates a positive aspect of financial slack, the second essay discusses a possible reason why firms are hoarding liquidity. Post liberalization, the relaxation in capital controls has allowed the flow of External Commercial Borrowings (ECBs) into the Indian economy. Literature states that ECBs are associated with forex risk, interest risk and, at times, rollover risk as well. The presence of such risks increases the fragility of the economy. Literature also states that a positive correlation among debt and liquid assets among non-financial firms in emerging economies can make them act as 'surrogate financial intermediaries' instead of focusing on their core activities. We have investigated whether such a phenomenon holds true in the case of India and also made some further studies associated with it.

The third essay deals with a possible way of using liquidity buffer by non-financial firms. While literature discusses precautionary, speculative and transaction motive of cash holdings, we have investigated the strategic implication of cash holdings in the context of India, which is one of the leading members of *Emerging and Developing Asia*. We find that firms may choose to use their

liquidity buffer to strategically impact entry-exit strategies and affect product market competition of firms.

We have attempted to capture these three aspects of corporate liquidity management practice in India. The abstract provides a brief overview of the work done in the subsequent chapters. While we have started investigating different aspects of liquidity management behavior in India, more work remains to be done. We hope that the dissertation provides motivation for further research in this area.