Financing and Growth of Firms in China and India

Discussion at NIPFP-DEA-JIMF Conference

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- Size and growth differences manifest prior to the IPO, but no marked differences between these firms and peers post-issuance.

Comments on this Paper

- Very interesting facts, raise a host of questions.
- Most of my observations on what this tells us, and some thoughts about measurement.
- I suggest follow-on analyses to help us interpret these intriguing results.

Specific Comments I

1. Main fact is that participation in capital markets is restricted to a small set of firms, which are larger.
    1.1 Article of faith: onerous regulatory approvals, bureaucracy, and corruption inhibit entrepreneurial activity in India.
    1.2 If larger firms are simply those which are better able to negotiate this difficult environment, they should be best positioned to take advantage of flourishing capital markets.
    1.3 Can check to see if the firms the authors identify are politically connected (in China and India) or promoter-driven (in India).
    1.4 Would provide evidence that the *interaction* of laws governing the business environment and the presence of liquid capital markets is the key to widespread growth.

Specific Comments II

2. How does the finding in this paper square with the well-known phenomenon of long-run underperformance of IPOs (Ritter, 1991, and many others)?

   2.1 Authors show that the firms tapping public capital markets are larger and grow faster prior to the offering, but no real difference between these firms and the rest post-issuance.

   2.2 All statistics are accounting numbers, but no analysis on stock returns. Yet we know that IPO long-run underperformance is prevalent.

   2.3 Raises important questions about the demand side - why do investors put money with these IPOs? Are they a worthwhile investment?

   2.4 Some answers lie in heterogeneity of investor population, and learning (see Campbell, Ramadorai, and Ranish, 2012).

Specific Comments III

3. Far as I understand, Bureau van Dijk data is subject to survivorship bias.
   3.1 From OECD checks, inactive firms in BvD data is 0.01% of all firms in China and 15.77% of all firms in India. Seems low (esp. in China).
   3.2 If riskier firms issue equity and debt, and you don't see many of them because of survivorship bias, potential downward bias in main result.
   3.3 Worth checking how quantitatively significant this might be.

Overall

- Nice work, raises many interesting questions for follow-on analysis.
- Recommended reading.
- Good luck!