Export Intensity and Financial Policies of Indian firms

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Agenda of the paper

- Exports have been an area of active interest
- Most of the studies have been though at the macro level
- `New Trade Theory' emphases firm heterogeneity in exporting.
- Hence: interest in the financial policies of exporting firms

Agenda of the paper

- Financial leverage of exporting firms
- Relevance:
  - Literature discusses both positive and negative correlation of exports and leverage.
    - Ganesh-Kumar, Sen and Vaidya (2003)
  - Connection between financial market reforms and economic development
  - Greenway, Guarigilia, Kneller (2007)
    - Exports improve financial health, not vice versa

Methodology

- Firms from list A and B of BSE selected
  - Current relevance ?
- Possibility of a sector wise analysis ?

Independent Variables

- Market to Book Value
  - Should it enter with a positive coefficient or negative ?
  - High market to book value indicates favourable market disposition, hence firms can afford to take higher leverage, without impairing expected return on equity.
  - Is also tied up with the duration for which the company has been existing

Beta

- Beta has been included as a measure of return/cash flow volatility.
- Beta is defined as:
  - Covariance of stock with index/variance of index

$$r_e = r_f + \beta (r_m - r_f)$$

- Beta is directly proportional to return on equity
- Higher leverage raises return of equity
- This will raise beta.

Future Work

- Moving away from reliance on Balance sheet entries, use of market equity instead of book equity
- Causality ? Leverage vs. Decision to export
- Look at correlation between export revenues and domestic revenues