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