

Corporate Investments in India: Issues and Evidences

Abstract

This study tries to examine the various issues related to corporate investments of Indian manufacturing companies during the period 1998-99 to 2013-14. The Generalized Method of Moments estimation results reveal that firm specific factors like cash flow, firm size, tangibility, sales income and leverage are the major determinants of corporate fixed investments in India. We find the Indian companies are financially constraint. The adjustment speed to target corporate investments is around 28 percent and the speed of adjustment has been higher in the non-crisis period, period of economic upturn and for group affiliated firms. The exogenous factors like business group affiliation, macroeconomic condition, financial sector development, financial distress, and CEO's personal characteristics also affect the corporate investment behaviour and the investment-cash flow sensitivity. Group affiliation and good economic condition reduce the role of cash flow in the determination of corporate fixed investment. The study also finds that financial sector development plays a positive role in corporate investment determination. Financial distress has a negative relationship with corporate investment. CEO's personal characteristics such as CEO's age and financial education are found to exert a significant impact in the determination of corporate investment in India. This study reveals that cash flow, lagged inventory investment, sales, cash conversion cycle, inflation rate and macroeconomic condition are the major determinants of inventory investment. The results are robust across the periods and different types of firms classified on the basis of firm size and business group affiliation. These findings have the implications for the corporate managers and policy makers to formulate an appropriate corporate investment policy of the manufacturing companies in India.

Keywords: Corporate investment, investment-cash flow sensitivity, business group affiliation, macroeconomic condition, financial development, financial distress, CEO's personal characteristics, inventory investment, generalized method of moments.