Borrowing From Government Owned Banks & Firm‘s Liquidation Risk

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Summary

- Main Finding: GOBs show lower tendency liquidate when given higher creditor rights.
  - GOB borrowers become less risk averse after a significant increase in creditor rights as their total debt does not fall as much.
  - The impact is stronger on firms in distress
  - Firms switch to GOBs
  - GOB firms invest more

Empirical Strategy

- The setting: SARFAESI Law of India
- Diff-n-Diff: GOB X Post
- Base line sample of high tangibility firms and extended sample of all firms
- Falsification tests

Comments

- The economic impact of GOBs is under researched.
- Focus has been on costs such as political intervention, ever-greening, and even impact on overall macro economy.
- The paper asks a reasonable question whose answer will further our understanding of PSUs.
- The data work is very transparent.
  - All tests have clean pre and post trend
  - Univariate tests, DID, and dynamic regressions

Comments- Development of Hypothesis

- I will start with the assumption that empirics are reasonable
- Three views
  - Social view- addressing market failures;
  - Agency view: misallocation of resources
  - Political view
- After describing the views the paper suddenly claims that
  - *However, all the three theories agree that the GOBs are unlikely to have only profit maximization objective. They might have a social objective such as facilitating economic growth by providing credit to financially constrained firms and maximizing employment, or they could be serving the personal goals of their managers or politicians.*
- Suggestion 1: Each view has different implications. Develop each view and testable hypothesis coming from each view and see what is working. For example CEO turnover can be used to test the agency view, elections for political view, shocks for ever-greening.
- Here the mechanism is as important as the question.
- Cannot have vague conclusion such as : *"But there is a third option. Wait and pray that borrower's prospects improve, and it repays the debt in full. There is some evidence that this is the option that GOBs in India seem to have adopted."*

The diff-n-diff design

- Vig design: Tangibility X Post
- This paper's design: GOB X Post using a sample of high tangibility firms. Robustness with a larger sample.
- Firms have solo relationship with GOBs may be unobservably different.
- They may be impacted by the law for reasons that have nothing do with GOBs.
- For instance: They may be operating in environments with courts that grant stay and move slowly, and hence, less affected by SARFAESI any way. There could be others
- Suggestion 2: Test: High Tangibility X Post within GOB and POB and then a triple interaction.

More on Design

- The paper uses total credit and secured credit
- I understand Vig 2013 also uses the same
- Prowess has information about total bank credit
- Reasonably populated.
- Suggestion 3: Use bank credit as the dependent variable
- Test the impact on non-bank credit separately

Why not use Khwaja and Mian 2008 template

- They exploit within firm variation based on the lending source
- Suggestion 4: Use MCA data instead of prowess
- Merge with prowess for firm fundamentals
- Use firm X Year Fe
- The GOB dummy will do the job
- Can vary the treatment effect depending on the hypothesis
  - Govt ownership
  - CEO tenure
  - Proportion of distressed borrowers etc

Investment ?

- Change in gross fixed assets not a great proxy.
- The problem: bad firms may have bad accounting too
- What if firms engaged in RPTs ? Tax heavens etc

- Suggestion 5: Use capex data

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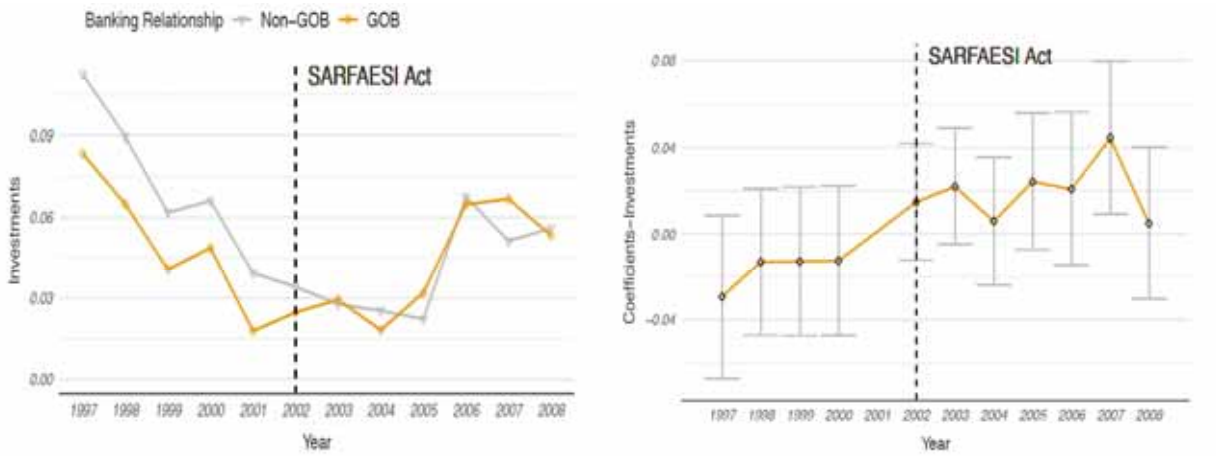

Fig. 5. Investments as a proportion of Total Assets In Previous Year

This figure shows the plots for *Investments* using the baseline sample. The left panel gives group wise yearly average of investments for GOB and non-GOB firms. The left panel gives the plot of coefficients θ_{Year} for the dynamic difference-in-difference regression: $Y_{ijt} = \alpha_i + \delta_{jt} + \sum_{Year=1997}^{2008} \theta_{Year}\ Year * GOB_i + \omega X_{ijt} + u_{ijt}$. α_i and δ_{jt} are firm and industry-year fixed effects respectively; $Post_t$ indicates whether firm year belongs to before act (i.e., years 1997 to 2001) or after act (i.e., years 2002 to 2008) period; GOB_i indicates whether the firms has exclusive relationship with GOBs in financial year 2001 or not; X_{ijt} are control variables. The standard errors are clustered at firm level. Error bars show 95% confidence interval. Sample Period is 1999 to 2008. Source: CMIE-Prowess Database.

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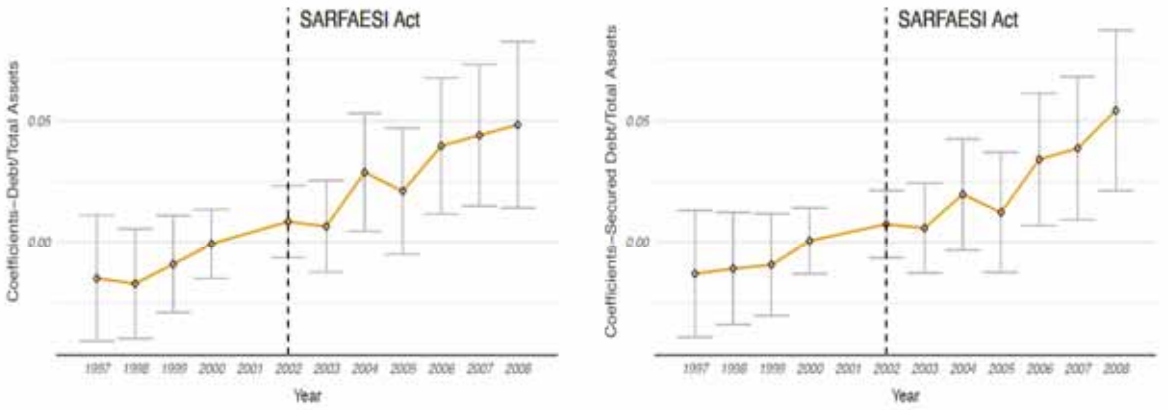

Fig. 3. Dynamic Difference-in-Difference Coefficients for Debt/Total Assets & Secured Debt/Total Assets

This figure shows the plot of coefficients θ_{Year} for the dynamic difference-in-difference regression: $Y_{ijt} = \alpha_i + \delta_{jt} + \sum_{Year=1997}^{2008} \theta_{Year}\, Year * GOB_i + \omega X_{ijt} + u_{ijt}$. The sample is baseline sample for the period 1997 to 2008. The dependent variable is *Debt/Total Assets* in left panel and *Secured Debt/Total Assets* in right panel. α_i and δ_{jt} are firm and industry-year fixed effects respectively; $Post_t$ indicates whether firm year belongs to before act (i.e., years 1997 to 2001) or after act (i.e., years 2002 to 2008) period; GOB_i indicates whether the firms has exclusive relationship with GOBs in financial year 2001 or not; X_{ijt} are control variables. The standard errors are clustered at firm level. Error bars show 95% confidence interval.

The figures point out at ever-greening

- Suggestion 7: Look at Mardia Chemicals Vs ICICI Bank case
- See what happens after 75% was reduced to 25%.
- See what happens after constitutional validity was upheld ?
- I think there was a judgement that impaired banks' ability to sell
- All these can be utilized

BIFR

- Why was there a decline in BIFR cases
- Hard to conclude from the summary
- Filing for BIFR means net worth>= accumulated losses
- Evidence that firms chose strategically

- Suggestion 6: Why not use IBC ?

Ever-greening story

- To me this looks like an ever-greening story as shown by Kulkarni (2017)
- Bad firms move to GOBs
- Outcome variables do not improve ?
- Investment story is also doubtful

Minor Comments and Suggestions

- Not enough to focus on confirming evidence
- Coefficients of two different regressions cannot be directly compared
- Also consider opposing views and rule out
- Order of figures and tables
- Cannot assume a channel
- Cannot use statements made as main evidence
- Think of IV approach