

CHAPTER 17

FINANCIAL STUDIES

Doctoral Theses

01. BEDI (Prateek)
Corporate Cash Holdings: Determinants and Implications.
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Abstract
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We examine firm-specific determinants of cash holdings and macroeconomic determinants of adjustment speed of cash holdings for a sample of 1696 Indian non-financial firms for the period 2001-2016. In this regard, we employ dynamic panel regressions based on system generalised method of moments as the primary estimation technique. Our results show that profitability, operating cash flow and cash flow volatility are positively associated with cash holdings whereas size, leverage, liquidity, capital expenditure and promoter ownership are negatively related with cash holdings. Providing empirical support to 'efficient monitoring hypothesis', our findings indicate that higher promoter ownership held by Indian entities is associated with lower cash holdings. With regard to ownership of foreign entities, our results suggest that cash holdings share a U-shaped relationship with ownership of foreign promoter corporations. Moreover, our findings show a more pronounced negative association between cash holdings and promoter ownership for group-affiliated firms as compared to non-affiliated firms since the former faces lower financial constraints on account of access to internal capital markets. In addition, our results indicate that firms with excess cash move toward their target cash levels at a faster pace during times of high economic growth. Further, our findings show that a high level of interest rate decelerates the movement toward target cash levels for firms with excess cash. Lastly, our results suggest that volatility in financial markets is positively associated with adjustment speed of cash holdings for firms with excess cash. Thus, our study makes novel contribution to existent literature by documenting that relationship between cash holdings and promoter ownership varies across types of promoters. Providing fresh insights regarding movement of cash holdings toward target levels, our findings reveal that association between adjustment speed of cash holdings and macroeconomic factors varies across firms with excess cash and cash deficient firms.

Contents

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