

Corporate governance practices in companies listed in NIFTY CPSE index and its relationship with companies' liquidity

MOHD IFTIKHAR BAIG

PhD. Scholar

Department of Management

Mizoram University, Aizawl, India

Dr. BIDHU KANTI DAS

Assistant Professor

Department of Management, Mizoram University

Abstract

In the present era of business two principles are very important. First is transparency and second is trust. Investors are also more interested in investing in the companies which demonstrate good social responsibility and have high standards of transparency norms. The entire stakeholder wants to see that the respective company should operate with integrity and this can be done with the help of a good corporate governance structure. It reflects the positive traits of a company and the intentions behind the particular business they have. Corporate governance also affects the performance of the company. The present study shows the corporate governance practices in central public sector enterprise and its relationship with the liquidity of the companies listed in Nifty CPSE index. There are 10 companies in this index which were taken for the study.

Key words: Corporate governance, Liquidity, Size of the firm, Leverage

CORPORATE GOVERNANCE: AN INTRODUCTION

In recent times corporate governance has attained a great importance all over the world. There were two very important factors which were responsible for the rapid growth of corporate governance i.e. integration and globalization of financial markets and a surge of corporate scandals such as Enron, World Com and others. Initially in the mid of 1970s many US firms were found involved in illicit payments to foreign officials which led U.S. Security Exchange Commission (S.E.C) into the corporate governance realm. At that time few outside directors of many companies were involved in false activities like paying bribe and due to these corporate records were affected. Many senior executives are also involved in this. Due to this widespread corporate bribery federal agency has taken action and resolved numerous cases with settlements and where the companies are involved in false practices were undertook to make board-level changes, such as the appointment of additional outside or independent directors and the creation of an audit committee. Not only this, in 1976 the S.E.C. amended the listing requirement for the companies listed in New York Stock Exchange. According to the new guidelines of the S.E.C each listed company has to maintain an audit committee composed of independent directors.

The chairman of the New York Stock Exchange said in 1977 the greatest challenge facing U.S. business and private enterprise generally might be “The prospect of pervasive government supervision and control over corporate governance and management (Chicago Tribune, 10-8-1977).” After that world had seen many corporate scandals which are became very popular. So all these illicit practices compelled different governments made regulations on corporate governance among which “Sarbanes-Oxley Act of the US legislated on 30 July 2002” was the most important and considerable Act.

About Nifty CPSE

Nifty CPSE consist of central public sector enterprises. Its main aim is to provide the facility for disinvestment of some selected public sector enterprise to the Government of India. At present there are 10 companies listed in this index.

Table 1
NIFTY CPSE Index

Company Name	Industry	Share price	Market Capitalization (Rs cr) as on 12 Dec 2018
Oil and Natural gas Corporation Ltd. (ONGC)	Oil Drilling and Exploration	164.90	211,620.05
Coal India Ltd.	Mining & Minerals	276.95	171914.20
Indian Oil Corporation Ltd. (IOC)	Refineries	135.45	131,546.47
GAIL India Ltd.	Oil Drilling and Exploration	356.85	80,472.21
Container Corporation of India Ltd.	Transport & Logistic	604.80	29,480.10
Oil India Ltd.	Oil Drilling and Exploration	208.55	23668.42
Power Finance Corporation Ltd.	Finance	81.85	21,609.07
Bharat Electronics Ltd.	Electricals	87.15	21,234.91
Rural Electrification Corporation Ltd.	Finance	104.05	20,549.02
Engineers India Ltd.	Infrastructure	117.55	7428.12

Source: *Moneycontrol.com*

Scope of the study

The present study examines the relationship between corporate governance and companies liquidity listed in Nifty CPSE index. There are ten companies listed in this index and all the ten companies were taken for a period of 4 years i.e. from 2014-15 to 2017-18 in the study.

Objective of the study

To study the corporate governance disclosure of companies listed in Nifty CPSE index.

To examine the relationship between corporate governance and company's liquidity.

Methodology

For the study companies listed in Nifty CPSE index were taken for a period of four years i.e. from 2014-15 to 2017-18. The main aim was to find the relationship between corporate governance and companies' liquidity.

Source

The study is based on secondary data. The data were collected from annual reports, sustainability reports and reports on corporate governance of the selected companies. Apart from these books, journal, websites and research papers on corporate governance were also taken.

Analysis Tools

To study corporate governance, corporate governance disclosure index i.e. CGDI was used. For this purpose mandatory corporate governance disclosures mentioned in Companies Act 2013 and SEBI's Clause 49 were taken. Altogether there were 52 items taken for mandatory disclosure. After that 1 point has been given to the each disclosure items and 0 point for non-disclosure items. On this basis corporate governance disclosure index was developed by using the formula:-

$$\text{CGDI} = \text{Obtained score} \div \text{Expected score} \times 100.$$

Two control variables i.e. size of the company and leverage of the company which also effect the liquidity of the company have also been used.

For size of the company, total assets shown in the end of the balance sheet of the particular year were taken and for leverage debt equity ratio are taken.

To study the liquidity of the company current ratio has been taken.

After collecting the above data, the relationship between the dependent variable i.e. liquidity and the independent variable i.e. Size of the company, leverage and corporate

governance disclosure index has been analyzed with the help of Karl person coefficient of correlation.

Data Analysis

The current ratio is a liquidity ratio shows that whether a company is financially capable to meeting its short term expenses. It is calculated by dividing current assets by current liability.

Given below is the table which shows the liquidity of the companies listed in CPSE Nifty index with the help of current ratio.

Table-2
Current ratio of CPSE Nifty Index

Year	14-15	15-16	16-17	17-18	Mean	Standard deviation
Oil and Natural gas Corporation Ltd. (ONGC)	0.97	0.96	0.84	0.41	0.795	0.22809
Coal India Ltd.	1.86	1.74	1.4	1.02	1.505	0.326917
Indian Oil Corporation Ltd. (IOC)	0.73	0.62	0.63	0.65	0.6575	0.043229
GAIL India Ltd.	1.03	0.98	0.96	0.82	0.9475	0.077902
Container Corporation of India Ltd.	3.79	4.39	4.29	3.96	4.1075	0.242732
Oil India Ltd.	2.45	2.89	1.56	0.95	1.9625	0.755823
Power Finance Corporation Ltd.	1.21	1.32	0.95	0.95	1.1075	0.162231
Bharat Electronics Ltd.	1.95	1.76	1.54	1.42	1.6675	0.203639
Rural Electrification Corporation Ltd.	6.68	5.23	7.81	4.38	6.025	1.318456
Engineers India Ltd.	2.59	2.64	2.24	1.79	2.315	0.340037

Source: *Compiled from moneycontrol.com*

Total assets are of the very important variable which affects the liquidity. At the time of liquidation also net worth of a company is calculated by total assets only. The table given below shows the book value of the total assets at the end of particular year.

Table-3
Total assets of the Nifty CPSE companies

Year	14-15	15-16	16-17	17-18	Mean	Standard deviation
Oil and Natural gas Corporation Ltd. (ONGC)	208079.9	221876.9	247249.5	291228.2	242108.6	31648.22
Coal India Ltd.	22149.89	21378.76	18885.4	18464.92	20219.74	1575.489
Indian Oil Corporation Ltd. (IOC)	219849.5	220504.2	259213.3	280738.9	245076.5	26037.75
GAIL India Ltd.	52893.23	52994.26	55336.96	58082.18	54826.66	2118.647
Container Corporation of India Ltd.	7635.69	8345.66	8846.2	9401.11	8557.165	649.9298
Oil India Ltd.	36227.12	39149.2	45339.55	44034.18	41187.51	3677.742
Power Finance Corporation Ltd.	228664.4	246636.8	258461.5	286465.2	255057	21009.12
Bharat Electronics Ltd.	15199.7	18022.27	17156.13	18490.9	17217.25	1454.245
Rural Electrification Corporation Ltd.	183175	206353	209236.2	246484.5	211312.2	22680.89
Engineers India Ltd.	3915.95	4078.9	4318.6	4430.32	4185.943	201.0425

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Source: *Compiled from Annual reports*

Debt equity ratio also affects the liquidity of a company. If debt financing is reduced and equity financing is increased then it also affects the liquidity of the company. The given below table shows the debt equity ratio of the companies listed in Nifty CPSE index.

Table-4
Debt equity ratio of companies listed in Nifty CPSE

Year	14-15	15-16	16-17	17-18	Mean	Standard deviation
Oil and Natural gas Corporation Ltd. (ONGC)	0	0.23	0.38	0.5	0.35	0
Coal India Ltd.	0.01	0.03	0.12	0.08	0.06	0.043012
Indian Oil Corporation Ltd. (IOC)	0.73	0.48	0.51	0.5	0.555	0.101612
GAIL India Ltd.	0	0.19	0.08	0.02	0.1425	0
Container Corporation of India Ltd.	0	0.01	0.01	0.01	0.0075	0.00433
Oil India Ltd.	0.39	0.37	0.31	0.26	0.3325	0.051174
Power Finance Corporation Ltd.	5.83	5.61	4.86	4.98	5.32	0.409695
Bharat Electronics Ltd.	0	0	0.01	0	0.0025	0.00433
Rural Electrification Corporation Ltd.	5.31	5.07	4.49	4.69	4.89	0.319687
Engineers India Ltd.	0.52	0.53	0.55	0.95	0.6375	0.180745

Source: *Compiled from moneycontrol.com*

Corporate governance disclosure index is prepared by taking 52 mandatory disclosure items according to the SEBI's amended Clause 49. The given below table shows the disclosures done the companies in respective years.

Table-5
CGDI score of the Nifty CPSE companies

Year	14-15	15-16	16-17	17-18	Mean	Standard deviation
Oil and Natural gas Corporation Ltd. (ONGC)	40	47	39	40	41.5	3.201562
Coal India Ltd.	39	36	38	39	38	1.224745
Indian Oil Corporation Ltd. (IOC)	41	41	41	41	41	0
GAIL India Ltd.	39	37	38	40	38.75	1.089725
Container Corporation of India Ltd.	33	33	39	40	37.25	2.680951
Oil India Ltd.	37	37	37	37	37	0
Power Finance Corporation Ltd.	44	40.6	43	43	43	0
Bharat Electronics Ltd.	20219.74	0.06	43	38	43	0
Rural Electrification Corporation Ltd.	215076.5	0.555	41	42	42	0.433013
Engineers India Ltd.	34820.06	0.1425	42	42	42	0
Oil India Ltd.	37	37	37	37	37	0
Mean	41.075	8557.165	0.0075	37.25	-0.1009	0.3947
Standard deviation	1.9625	41187.51	0.3325	37		-0.0394
Mean	1.1075	255057	5.32	43		
Standard deviation	1.6675	17217.25	0.0025	41.75		
Mean	6.025	211312.2	4.89	42		
Standard deviation	2.315	4185.943	0.6375	42		

Source: *Compiled from Annual reports*

Table-6

Correlation Matrix of liquidity with size , leverage and CGDI

Source: *calculation*

The above table shows the correlation matrix of Nifty CPSE companies. It shows the relationship of liquidity (dependent variable) with size of the companies, leverage and corporate governance disclosure index (independent variable) of the companies.

FINDINGS

The study shows that most of the Nifty CPSE companies are having current ratio between 0.5-2.0 which means there is an efficient management of working capital but in some companies this ratio is more than 2 which implies that current assets are more than current liabilities and these companies may face problem in meeting out there short term obligations.

Optimal debt equity ratio is 2:1 and if this ratio lies below 2 times the equity it means that the creditors are less and financial system is sound. It was found that except Power Finance Corporation Ltd. and Rural Electrification Corporation Ltd. all other companies are having debt equity ratio below 2.

According to CGDI score, Power Finance Corporation limited has got first position in corporate disclosure.

In CGDI score the median value for the 40 observations was 41 and out of the these 40 observations 19 of them are having score less than the median value which shows the that companies are lacking in mandatory corporate governance disclosure.

The correlation matrix shows that there is a negative relationship i.e. 0.1009 between liquidity and size of the company which mean increase in size often company leads to decrease in liquidity and vise-verse. This may be because of more investment done in fixed assets by the companies.

The relationship between liquidity and leverage is positive i.e. 0.3947 which means increase in leverage will leads to increase in liquidity and vise – verse. Increase the value of debt will increase the liquidity.

The relationship between CGDI and liquidity is negative i.e. 0.0394 which may be because of an inverse relationship between disclosure and investment done by the investors. Sometimes more disclosure revels company's position clear to the investors and they avoid doing transaction with the company.

CONCLUSION

The companies listed in Nifty CPSE index and very reputed central public sector enterprises and it attract many investors also so here corporate governance become very important. The new corporate governance regulations have been given by the SEBI and Companies Act 2013 has affected the companies working. In the present study relationship between corporate governance and liquidity of the selected companies was observed. From the study it was found that there is a negative relationship of liquidity with CGDI and size of the company but a positive relationship between liquidity and leverage.

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