

Do Political Connections Pay for Pledging of Shares: Evidence from India

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ABSTRACT

This study examines the stock-pledging behavior of promoters in politically connected Indian firms, using NSE-listed companies from 2009 to 2019. We investigate how capital raised through stock pledging affects investment in high-risk projects and assess the impact of margin call pressure. Results show that higher stock pledging reduces corporate investment; however, promoters with political ties are more inclined to pursue riskier projects. Moreover, politically connected firms exhibit lower stock return volatility, suggesting that political connections help shield these firms from both investment risk and return fluctuations.

KEYWORDS

Political Connections, Stock Pledging, Margin Call Pressure, Volatility, Promoter, India

INTRODUCTION

Every firm faces challenges while determining the appropriate instrument for raising additional capital. An informed manager, including promoters, uses adequate financing tools that align with the firm's debt-equity preferences. Sometimes, firms utilize their existing networks, such as political connections, to raise capital at a low cost and with ease. In recent years, several firms have employed either stock pledging or political connections (Faccio, 2006; Claessens et al., 2008), or a combination of both, to meet their financing requirements. In both methods, the role of the promoter is critical, as it helps the firm raise new capital.

The political connection of firms has been a common phenomenon across countries for many decades, in which firms' promoters are directly or indirectly associated with political parties (Faccio, 2006; Saeed et al., 2025). From the Indian Capital Markets perspective, a promoter initiates the formation of a company, taking all necessary steps to bring it into legal existence. They are also considered the founder or major stakeholder of the respective firm. Promoters can be an integral part of the company's board of directors, and in some cases, they may not hold executive roles. In many companies, the CEO and promoter are often the same person, especially for newly formed companies.

Corporate-political connections in India are unique and complex due to the existence of a multi-party political system. This complexity is further amplified by the coexistence of different political parties governing at the federal and state levels. In practice, the flow of corporate political donations—and consequently the strength of political connections—is largely directed toward parties with a pan-India presence across multiple states. Firms typically seek political connections to obtain benefits such as regulatory protection, tax concessions, and access to international government

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contracts, which are more likely to be influenced by the federal party in power rather than by state-level governments. Thus, despite the formal presence of a multi-party system, the primary economic advantages for firms are generally associated with alignment with the ruling party at the federal level. Moreover, in contexts where state governments award contracts to regionally dominant firms, these firms may allocate greater attention to state-level political parties. However, overall financial support to state-level parties remains relatively limited.

Political connections entail in two distinct manners – a) when various firms donate money to various political parties to fund their campaign contributions, especially during elections, and these are donation channels (Johnson & Mitton, 2003; Claessens et al., 2008; Aggarwal et al., 2012; Hill et al., 2014), and b) when firms' promoters are directly or indirectly associated with any political parties which are essentially called promoter channel (Bunkanwanicha & Wiwattanakantang, 2009). Direct association refers to the firm's owner holding a position as a Member of Assembly (MLA) or Member of Parliament (MP) of a particular party, whereas indirect association implies that the firm's owner's relatives or friends are associated with a political party (Ovtchinnikov & Pantaleoni, 2012).

Generally, stock pledging is an arrangement that serves as collateral for debt acquisition by retail shareholders, owners, promoters, or founders of any firm (Wang et al., 2018; Khaw et al., 2019; Jin et al., 2025). Promoters can pledge shares to raise external capital to fund projects in their parent or subsidiary firms (Jin et al., 2025). Lenders can be banks, non-banking financial companies, or any other financial institution authorized by regulators. Promoters may use this money to fund new ventures, add capital to existing ventures, carry out acquisitions, or even meet personal requirements.

Pledging of shares is common among firms where promoters' stakes are relatively high. Moreover, share-pledging agreements help promoters raise capital when needed, temporarily protect insiders or promoters from firm risk (hedging effect), and undermine the incentive purpose of equity compensation (Larcker & Tayan, 2010). This activity is legal in many countries, including India, Australia, Japan, and China. However, pledging shares is not a reasonable use of equity (Shen et al., 2021). It has also been considered a problematic practice (Institutional Shareholder Services (ISS), 2012), as it involves promoters pledging a significant proportion of their holdings to lenders, especially in volatile markets.¹ At the time of pledging shares, lenders and promoters agree on a minimum contract value for the shares, thereby building a margin of safety into their loans. Nevertheless, if a sudden adverse event or bear attack on a stock triggers a sharp decline, the collateral value shrinks, and prior studies indicate that these are prone to crash risk (Dou et al., 2019). In such a scenario, the lender may demand that the promoters provide additional collateral to maintain the loan-to-collateral ratio, triggering a Margin Call (Chauhan et al., 2021). Promoters cover up this shortfall by paying the difference or pledging additional shares. If promoters fail to meet the margin call, the lenders invoke the pledge, sell the pledged shares in the market, and realize the money. A more significant stock price decline occurs when multiple lenders simultaneously invoke promoter pledges.

According to the agency framework of Meckling & Jensen (1976), share pledging intensifies conflicts between controlling and minority shareholders. When shares are pledged, the controlling owner retains voting rights but has reduced effective cash flow rights due to the potential for forced liquidation. This divergence increases incentives for risk-shifting, tunneling, and short-term price support behavior. Two competing perspectives dominate the literature (Farinha, 2003): the Liquidity Hypothesis: Pledging relaxes the financial constraints of controlling shareholders, potentially enabling long-term value creation.; Entrenchment Hypothesis: Pledging amplifies expropriation incentives, leading to inefficient decisions and value destruction. Studies find that firms with pledged controlling

¹ It is published in The business Line Hindu-
<https://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-about-promoter-pledging/article26305212.ece>

shareholders often exhibit: a) Overinvestment in high-variance projects, b) Reduced long-term R&D spending, c) Preference for projects with short-term price effects.

The existing theories on firm financing emphasize the use of equity and debt instruments for raising capital for various investments (Xu et al., 2013). Over the decades, firms have explored various direct, indirect, and non-conventional alternative tools to meet their investment requirements. Promoters often use stock pledging as an alternative channel for capital raising, pledging shares to lenders to raise external capital to fund projects within their firms or new ventures, carry out acquisitions, or even meet personal requirements.

This study examines two potential channels through which Indian firms address investment financing needs: stock pledging as a direct financing mechanism and political proximity through connections as an indirect channel. In particular, we investigate two related questions. First, do political connections function as a risk-mitigating mechanism in the context of promoter share pledging, thereby reducing the risks associated with pledging activities? Second, do political connections facilitate access to additional financing, enabling firms with pledged promoter shares to influence their investment decisions?

This study conceptualizes stock pledging as an alternative mechanism for firms to obtain external financing. We argue that promoters in Indian firms rely on share pledging as a supplementary source of funds when they prefer to avoid conventional financing channels, such as equity issuance or debt borrowing. While politically connected firms typically derive multiple advantages from their affiliations, they may still choose between traditional financing routes and stock pledging to secure additional capital.

The study contributes to the emerging literature on political connections and stock pledging in several ways. First, it examines whether firms' political proximity influences promoters' pledging behavior. Prior research suggests that politically connected firms tend to maintain substantial cash reserves and are often perceived as "cash cows" by political actors and controlling shareholders (Boubakri et al., 2013), thereby intensifying agency concerns (Anderson & Hamadi, 2016). Consistent with these results, our findings indicate that promoters of politically connected firms are more likely to engage in stock pledging activities. Second, we analyze the relationship between stock return volatility and political connections in the context of stock pledging. The results show that politically connected firms exhibit lower stock return volatility, and this stabilizing effect is more pronounced among those whose promoters pledge shares. Third, the study explores the channels—namely, political donations and promoter-level connections—through which political affiliations create firm value. Finally, we examine firm outcomes associated with stock pledging. The evidence suggests that politically connected firms involved in pledging activities demonstrate lower operating performance. However, contrary to earlier studies, we find no adverse effect of stock pledging on investment decisions in politically connected firms. Instead, politically connected firms with pledged shares appear to undertake higher levels of investment than their non-connected counterparts.

This paper is organized as follows. Section 2 presents background studies on stock pledging by promoters and on political connections in India, while Section 3 reviews selected literature and proposes testable hypotheses. Section 4 discusses the data sample and methodology, and Section 5 reports the results. Finally, the last section presents the conclusion and outlines future research directions.

BACKGROUND: STOCK PLEDGING AND POLITICAL CONNECTION

STOCK PLEDGING ACTIVITIES BY PROMOTERS IN INDIA

Stock pledging by promoters in the Indian market has been a long-standing phenomenon. However,

stock pledging attracted significant public attention following the 2009 collapse of Satyam Computer Services, whose chairman, Ramalinga Raju, was subsequently convicted of financial statement fraud. In the weeks leading up to the scandal's revelation, lenders issued margin calls and liquidated Raju's pledged shares, triggering a sharp decline in the firm's stock price. In response to the episode and the associated market concerns, the Indian securities regulator, Securities and Exchange Board of India, introduced enhanced disclosure requirements governing promoter share pledging. More recently, reports by Hindenburg Research have highlighted the continued relevance of this financing channel, noting that several Adani Group firms have relied on promoter share pledging to raise capital. The Hindenburg report also highlights share pledging as an inherently unstable form of lending collateral, thereby increasing the likelihood of abrupt stock price declines when lenders liquidate pledged shares.² Accordingly, we argue that an additional objective of this study is to examine whether stock pledging by Indian promoters differentially affects share price volatility in politically connected and non-connected firms.

The disclosure framework for share pledging consists of three key components (Asija et al., 2014). First, insiders who obtain loans against their firm's shares must disclose the pledge to the company within 7 days of the transaction. Second, upon receiving such information, the firm must notify the stock exchanges within seven days. Third, firms are required to report, on a quarterly basis and alongside their shareholding pattern disclosures, the aggregate number and proportion of shares pledged by all promoters.

POLITICAL ASSOCIATION OF FIRMS IN INDIA

The indirect and non-conventional channel operates through the political connections established by firms, which facilitate preferential access to capital providers (e.g., banks and financial institutions) and confer additional economic advantages. The existing literature documents multiple benefits accruing to politically connected firms (Bunkanwanicha & Wiwattanakantang, 2009). It also suggests that corporate-political ties are both pervasive and enduring, with firms frequently providing financial support to political parties through donations that foster informal linkages between corporations and political actors (Akey, 2015). The process of corporate political contributions was formalized through amendments introduced in the Finance Bill 2017, which permit firms to donate unlimited amounts to political parties. Prior to this reform, corporate donations were capped at 7.5% of the firm's average net profits over the preceding three years. Consequently, the amendment also enables loss-making firms to make political contributions.

Figure 1 shows the number of corporate political donations in India over the period 2004–2019. The figure indicates a significant increase in political contributions in recent years, reflecting firms' growing engagement in campaign financing and other political activities, including efforts to cultivate relationships with incumbent governments. The intensity of political connections is plausibly related to both the magnitude and the frequency of donations over time. Consistent with this view, the number of donating firms rises substantially during the sample period, with a remarkable increase in four national election years (2004, 2009, 2014, and 2019). This pattern suggests that firms have stronger incentives to establish or reinforce political ties when the expected value of such connections is higher, particularly during politically salient periods.

Figure 2 shows the number of pledged firms in the Indian financial market, which has risen over the years (2009–2020). However, promoters' pledged shares rose abruptly during the same period. Therefore, we can posit that the tendency for promoters of Indian firms to pledge their shares to access external capital is also rising. Moreover, we observe a similar trend in Figure 2, where the

² Details of report “Adani Group: How The World’s 3rd Richest Man Is Pulling The Largest Con In Corporate History” can be accessed through link- <https://hindenburgresearch.com/adani/>

pledging percentage per firm increases during the same period (2009-2020). Interestingly, the abrupt rise in percentage in 2014 and 2019 coincided with election years. Figure 2 shows a notable increase in the proportion of companies' stock pledged by promoters, particularly in the years leading up to India's election. This phenomenon suggests a high level of engagement by specific firms in stock pledging, which may influence election outcomes. Consequently, we hypothesize a potential connection between stock-pledging practices and the proximity of these firms to political parties. Figure 3 illustrates promoter share pledging in politically connected and non-connected firms. The trend indicates that politically connected firms exhibit higher levels of stock pledging than their non-connected counterparts.

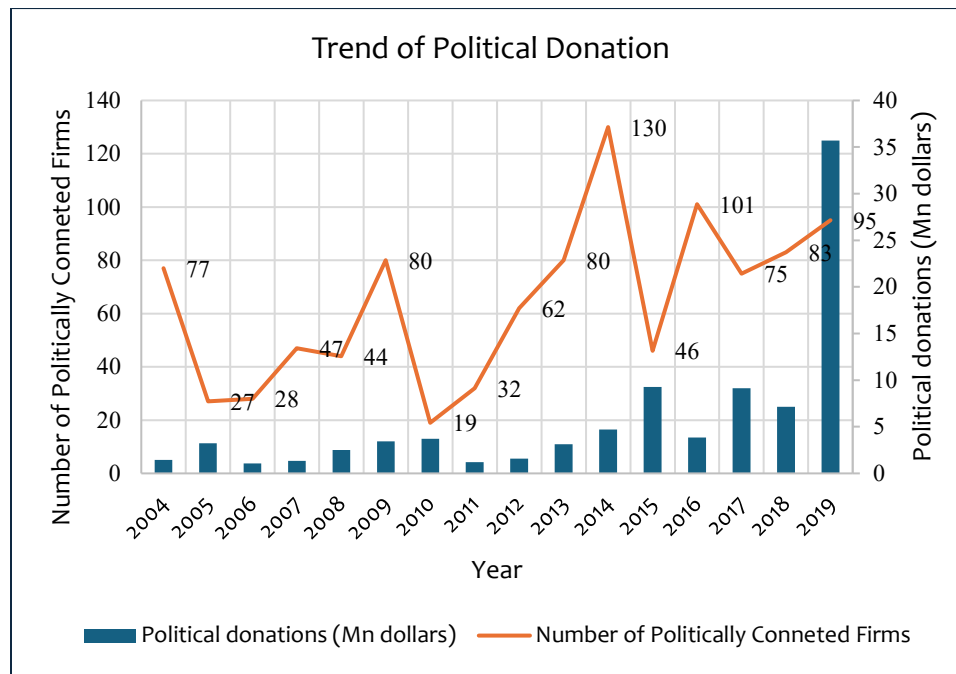


Figure 1. Trend of Political Donations Over the Sample Period

Note: The Figure presents the trend of political connections in a bar graph and the number of politically connected firms in a line graph, both with respect to time (year) on the x-axis. The figure shows that from 2004 to 2019, the amount of political donations increased, and the number of politically connected firms also increased. Furthermore, during election years in India, the tendency for firms to become politically connected is relatively higher.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

POLITICAL CONNECTION AND FIRM CHARACTERISTICS

Faccio (2006) observes that politically connected firms are likely to have higher financial leverage, lower interest rates, and a higher likelihood of getting bailed out than their non-connected peers. Therefore, shareholders and lenders benefit from being bailed out (Banerji et al., 2016). Bailed-out politically connected firms have a significantly lower return on assets (ROA) than their industry peers and lower industry-adjusted ROAs than other bailed-out but non-connected firms. Sun et al. (2011) find that personal and organizational-level political connections have an adverse effect on a firm's overall performance, leading to negative cumulative abnormal returns (CARs). Therefore, the market responds negatively to any news related to politics.

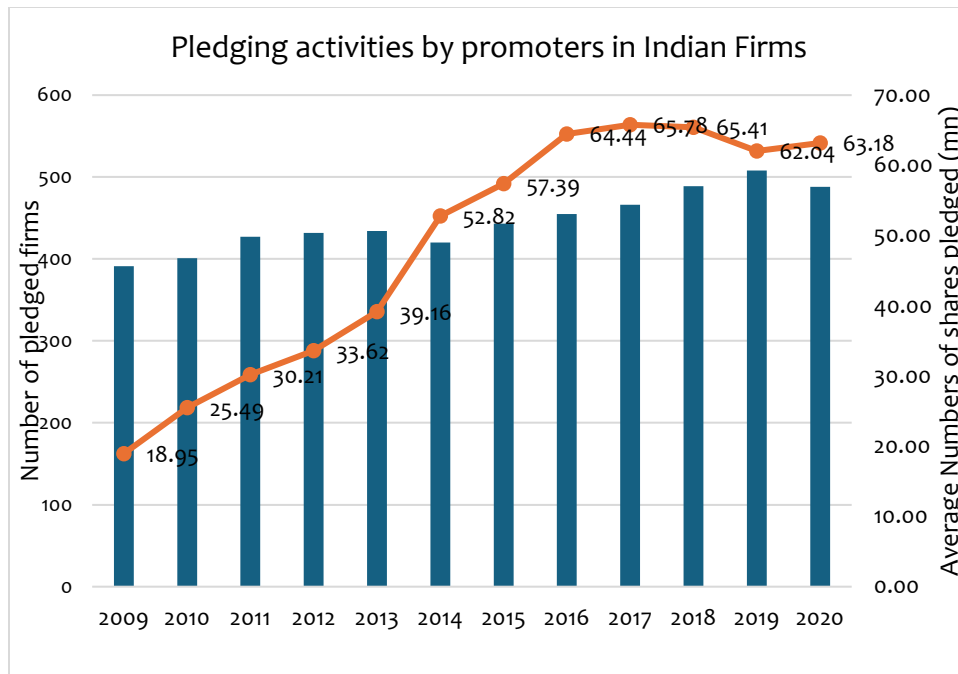


Figure 2. Pledging Activities by the Promoters

Note: The figure illustrates promoters' share pledging activity and the average number of pledged shares for 2009-2020. The figure shows that both trends are increasing over the period, reflecting the intent to pledge shares.

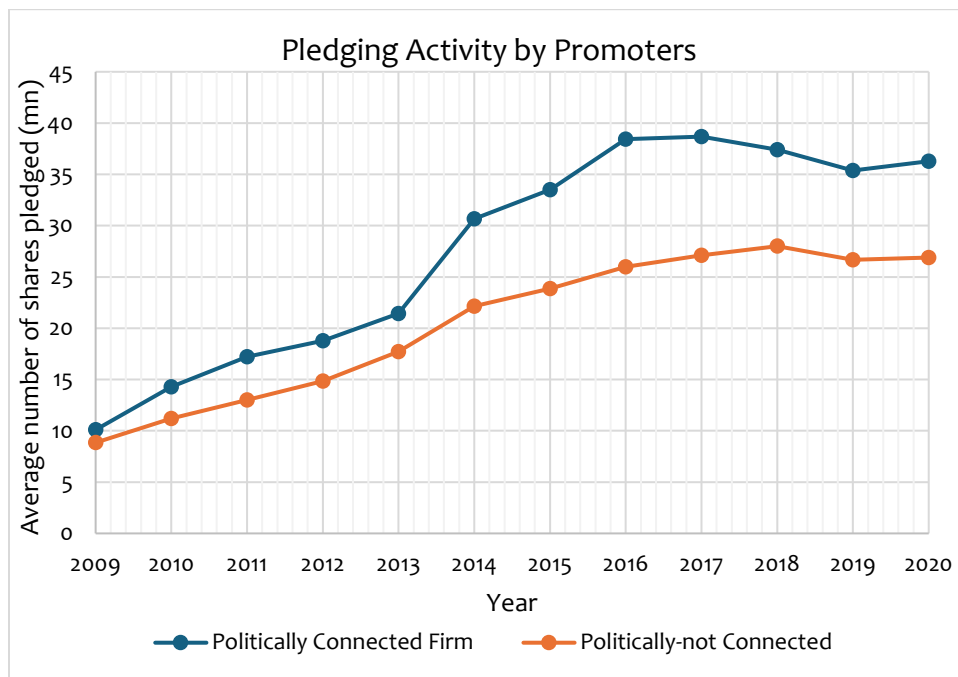


Figure 3. Pledging Activities by the Promoters in Politically Connected and Non-Connected Firms

Note: The figure illustrates the average number of shares (in millions) held by promoters in Indian firms from 2009 to 2020. The figure shows an increase in the share of pledging activities in politically connected firms.

Kim et al. (2019) find that firms utilize political connections to facilitate growth, enhance cash flow expectations, and employ hedging instruments to protect themselves against financial distress and systemic risk. Khwaja and Mian (2005) and Houston et al. (2014) observe that politically connected

firms access funds from lenders at lower interest rates, leading to higher leverage on their balance sheets. Therefore, politically connected firms (Schoenherr, 2019) do not depend on internal cash flows for investment decisions; hence, their investment cash flow sensitivities are lower (Ganguly, Mishra, & Parikh, 2023). Claessens et al. (2008) observe that firms that made substantial financial contributions have bank leverage that is incrementally higher over the four years following the election result. Kostovetsky (2015) finds that politically connected firms in the financial sector exhibit high volatility, high debt ratios, and high betas. Consequently, political affiliations serve as an advantage for these firms, as they surpass their non-politically connected counterparts, a trend consistent with recent studies, including Ganguly, Mishra, and Katarzyna (2023).

STOCK PLEDGING BY PROMOTER

Chen et al. (2017) suggest that promoters utilize stock pledge loans to finance investment opportunities when they face stringent financial constraints. Therefore, stock pledging helps avoid the issuance of new shares and the dilution of their control over firms, even though it increases the firm's leverage. Faccio et al. (2006) document that firms controlled by large, diversified shareholders undertake riskier investments than those controlled by large, non-diversified shareholders. However, stock pledging allows all shareholder groups to obtain loans from lenders.

Wang and Chou (2018) find that firms whose directors are involved in pledging their shares experience significantly higher stock returns, as pledged firms benefit from regulatory changes. Institutional investors tend to invest in firms with fewer governance problems. In recent studies, Chou et al. (2021) & Rajhans (2024) suggest that the value of cash holding is lower for firms that pledge. They also express concern that margin call pressure makes insiders highly risk-averse and conservative towards deploying cash.

Similarly, Dou et al. (2019) find that firms with higher pledging levels experience more significant declines in insider shareholding during bear markets. As a result, these firms suffered more substantial stock price declines. They also posit that pledging creates greater risk aversion among insiders who intend to preserve their benefits from controls. Pledging is positively associated with more conservative corporate investment policies.

HYPOTHESIS DEVELOPMENT

Prior literature indicates that banks offer preferential lending to politically connected firms, suggesting that these firms have higher borrowing levels than non-connected firms (Khwaja & Mian, 2005). Politically connected firms secure loans at lower interest rates, and borrowers are perceived as more creditworthy because of their association with political parties (Houston et al., 2014). However, Bliss & Gul (2012) argue that politically connected firms are riskier; hence, their cost of debt effectively increases. Nguyen et al. (2023) show that politically connected firms tend to have higher distress risk due to increased risk-taking behaviour driven by different incentives arising from connections. Boubakri et al. (2013) find that politically connected firms are more likely to engage in risky corporate investments, and therefore, the cost of loans from lending institutions increases. Moreover, Chauhan et al. (2021) posit that pledging large proportions of outstanding shares by promoters exacerbates stock price volatility, thereby enhancing risk-taking. Hence, firms affiliated with political parties find different avenues, such as pledging their shares as collateral for borrowing.

Therefore, our first testable hypothesis is:

H1: Promoters of politically connected firms exhibit a higher level of engagement in stock-pledging activities than their counterparts in non-connected peer firms.

Previous studies posit that politically connected firms render higher value than non-connected firms (Faccio, 2006; Bunkanwanicha & Wiwattanakantang, 2009; Ganguly, Mishra, & Katarzyna, 2023). Ease of accessing government contracts (Claessens et al., 2008; Cooper et al., 2010), lower taxation, lower cost of capital (Bliss & Gul, 2012), and regulatory protection (Faccio, 2010) help connected firms outperform their peers. However, firms whose promoter pledge their shares are highly volatile and show higher risk (Chauhan et al., 2021). Therefore, the pledging of firms' shares (Avabruth et al., 2024) leads to lower firm value and performance (Puleo et al., 2021).

Therefore, our testable hypothesis would be:

H2a: The political connection of firms positively impacts the firm's performance.

H2b: Firms with political connections that engage in share pledging demonstrate lower firm performance.

Dutt and Jenner (2013) posit that low-volatility stocks in emerging markets generate higher returns than high-volatility stocks. Moreover, Baker et al. (2011) suggest that stocks in the lower-volatility quintile tend to earn higher future returns than those in other quintiles. Firm performances are inversely related to Stock return volatility (Ang et al., 2006). Additionally, we know from earlier studies that politically connected firms report higher firm value and performance (Goldman et al., 2009; Bunkanwanicha & Wiwattanakantang, 2009). Additionally, Chauhan et al. (2021) find that promoter-pledging firms are highly volatile and exhibit significantly higher downside risk.

Therefore, our testable hypothesis would be:

H3a: Stock return volatility is lower for politically connected firms.

H3b: Stock return volatility is higher for politically connected firms involved in stock pledging.

We observe from earlier studies that promoters' stock pledging activities, exacerbated by margin call pressure, reduce the level of firms' capital investments (Chauhan et al., 2021; Li & Zhu, 2022). Few other studies (He et al., 2023; Geng et al., 2024) have demonstrated that share pledging activity exacerbates firms' overinvestment and worsens their underinvestment. Moreover, we posit that political connectedness is exposed to higher corporate investment and mitigates underinvestment. We propose the following hypothesis:

H4a: Stock pledging firms invest less in risky projects than non-pledged firms.

H4b: Politically connected firms involved in share-pledging activities invest more in risky projects than non-connected firms.

DATA AND METHODOLOGY

DATASET AND VARIABLES

Our sample consists of firms listed and traded on India's National Stock Exchange (NSE). We collect stock-specific information from the ProwessIQ database, which is maintained by the Centre for Monitoring Indian Economy (CMIE). The total number of firms in our final sample is 1,835. We excluded

firms owned by the Government of India, especially when the promoter is the President of India³. Financial firms, such as private banks, life insurance companies, and home finance companies, are excluded from the sample because their capital structures are likely to differ substantially from those of other firms. Table 1 presents the details of each variable used in the analysis.

The sample period spans 2009 to 2019, encompassing three Lok Sabha elections, the lower house of the Indian Parliament.⁴ The elections took place in 2009, 2014, and 2019, respectively. To mitigate the influence of outliers, all variables are winsorized at the 1st and 99th percentiles. The final sample comprises 1,835 firms, of which 480 are identified as politically connected (CONNECT), 220 as politically connected through political donations (CONNECT_DON), and 327 as connected through promoters or owners (CONNECT_PROM).

The final sample consists of a dataset on political donations made by the corporation and the presence of a firm promoter in a political party. Data on corporate donations to political parties are primarily collected by an electoral trust.⁵ However, certain firms donated money directly to political parties.⁶ All donation-related details were authenticated using the respective firms' annual reports. Firms belonging to an individual (when they are the promoter or shareholder) who has made political donations themselves (e.g., Mr. Rakesh Jhunjhunwala, owner of the asset management firm Rare Enterprises, dubbed in the media "the Indian Warren Buffett") to political parties are also identified as politically connected.

We have hand-collected the dataset of identifying firms with political connections through the promoter channel. Consistent with prior literature, a firm associated with a politically connected individual, an industrialist, or a politically influential business family is classified as politically connected (Bunkanwanicha & Wiwattanakantang, 2009; Swanpitak et al., 2020). In addition, firms linked to a public sector undertaking (PSU) or those that receive government contracts in India are also considered politically connected (Faccio, 2006).

METHODOLOGY

This study examines two distinct channels of political connection. The first channel is CONNECT_DON, which includes political connections through political donations or contributions to political parties (Cooper et al., 2010; Kim et al., 2019). The second channel is CONNECT_PROM, which encompasses firms whose owners or promoters are directly or indirectly associated with political parties (Faccio, 2010; Ganguly, Mishra, & Parikh, 2023).

Most firms in our sample donate funds to political parties every 2 to 3 years. Many firms donate funds to a political party during or near election time. However, we include firms that donate large and smaller amounts of money, even if they contributed only once. Since the electoral Trust has become an official platform for donating money to political parties, contributors are disclosed, the government authorizes donations, and there is no upper limit on funding to political parties.

The following model (1) establishes the relationship between share pledging activities and firms' political connections for the i^{th} firm and the t^{th} time period, along with all adequate control variables at time period t . We also include firm- and year-fixed effects in the model.

³ Government-owned firms or Public sector Undertaking (PSU) firms in India, where the majority of the stake is under the ownership of the President of India. We should remove those firms from our sample, as those firms are directly controlled by the government, whose presence may influence the overall sample and the results.

⁴ The Parliament of India is the supreme legislative body of the India. It is responsible for making laws, representing citizens, approving government spending, and overseeing the executive branch of the government. <https://mpa.gov.in/>

⁵ Firm donations were collected from the Election Commission of India website <https://eci.gov.in/candidate-political-parties/contribution-reports/contribution-reports-et/>

⁶ Direct funding to political parties and electoral trust donation is also documented, <https://myneta.info/party/>

Table 1. Variable Descriptions

Variable Name	Description
CONNECT	A dummy variable equals 1 for politically connected firms and 0 for all other firms.
CONNECT_DON	A dummy variable equal to 1 for firms that are involved in political donations or contributions and 0 otherwise
CONNECT_PROM	A dummy variable equals 1 for politically connected firms through a promoter, owner, or large shareholder, or for firms that receive any government contract, and 0 otherwise.
Stock Return Volatility	The standard deviation of daily stock returns for each stock during each year
Firm_specific Stock Return Volatility	The annual standard deviation of daily return residuals from the Fama-French (1993) factor model
Stock_Pledge	Percentage of ownership pledged by the promoter compared with the promoter's total held share
ASSET	Book value of total assets.
SIZE	Natural logarithm of total assets
CASH	Cash & cash equivalents at the end of the fiscal year
EXCASH	Excess cash holding, which is residual obtained from a regression of cash holding on financial control variables
CF	Cash flow is income before extraordinary items, plus depreciation and amortization, divided by total assets.
LEV	Leverage is the sum of long-term borrowing (excluding the current portion of debt) plus short-term borrowing divided by total assets.
CAPX	Capital expenditure is calculated as Gross fixed assets divided by total assets.
NS	Net sales are calculated by dividing net sales by total assets.
LOC	A dummy variable equals 1 for firms located in Mumbai's business capital and 0 otherwise.
Tobin's Q	An outcome variable is the ratio of the market value of equity and the book value of liabilities to the book value of assets and is used as a proxy for firm value.
PB	Market price per share divided by book value of total equity.
BM	Book value of share divided by market value of share.
ROA	Net operating income is divided by the average total assets.

$$\text{Stock_Pledge}_{i,t} = \beta_0 + \beta_1 \text{CONNECT}_{i,t} + \beta_2 \text{Control Variable}_{i,t} + \varepsilon_{i,t} \quad (1)$$

The following model (2) establishes the relationship among share pledging activities, firms' political connections, and firm performance for the i^{th} firm and t^{th} time period, along with all adequate control variables at time period t . The model also considers firm and year fixed effects in estimation.

$$\text{Firm_perf}_{i,t} = \beta_0 + \beta_1 \text{Stock_Pledge}_{i,t} + \beta_2 \text{CONNECT}_{i,t} + \beta_3 (\text{Stock_Pledge}_{i,t} * \text{CONNECT}_{i,t}) + \beta_4 \text{Control Variable}_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$\text{Stock Volatility}_{i,t} = \beta_0 + \beta_1 \text{Stock_Pledge}_{i,t} + \beta_2 \text{CONNECT}_{i,t} + \beta_3 (\text{Stock_Pledge}_{i,t} * \text{CONNECT}_{i,t}) + \beta_4 \text{Control Variable}_{i,t} + \varepsilon_{i,t} \quad (3)$$

Model (3) shows the association between stock price volatility and stock pledging activity (Stock_Pledge). We use two proxies to measure the downside volatility of stock return: a) Stock return volatility, and b) Firm-specific Stock return volatility, along with all adequate control variables at time period t. We also include firm- and year-fixed effects in the model. We measure margin call risk intensity by forming an interactive variable, Pledging under pressure, that equals 1 if the stock price declines by more than the annual median percentage decline for the sample firms and 0 otherwise.

The following model (4) establishes the relation between the firm capital investment for the i^{th} firm at time (t+1) with political connections at time t and pledging of shares at time t, along with all control variables at time t.

$$\text{Firm_Investment}_{i,t+1} = \beta_0 + \beta_1 \text{Stock_Pledge}_{i,t} + \beta_2 \text{CONNECT}_{i,t} + \beta_3 (\text{Stock_Pledge}_{i,t} * \text{CONNECT}_{i,t}) + \beta_4 \text{Control Variable}_{i,t} + \varepsilon_{i,t} \quad (4)$$

Our dependent variable is asset growth, which is used to estimate corporate investment policy for politically connected firms in the model (4). Asset growth is calculated as the percentage change from previous years.

RESULTS

PRELIMINARY RESULTS

Table 2 presents descriptive statistics for all variables, including the variables of interest (CONNECT, Stock_pledge) and the firm-specific control variables. The mean (median) value of cash holdings (CASH) is 0.039 (0.013). The mean value of CONNECT is 25.4%, suggesting that more than 25% of the sample firms are politically connected. Kusnadi (2019) identifies only 2.7% of his sample as connected firms. However, he considers only the firm's political connection through a promoter such as a director or an owner. Furthermore, the mean values of CONNECT_DON and CONNECT_PROM are 12.3% and 16.6% of the overall sample, respectively.

The mean (median) value of the control variable cash flow (CF) is 0.058 (0.057), and the mean (median) values of CAPX and LEV are 0.424 (0.378) and 0.266 (0.231), respectively. Furthermore, the mean (median) values of NS and DIV are 0.822 (0.715) and 0.502 (1.000), respectively. The mean (median) value of Tobin's Q is 1.155 (0.684), whereas the mean (median) value of ROA is 0.088 (0.084). PF has a negative skewness (-0.813). However, CF has the largest negative skewness (-1.197), and GRP has the highest positive skewness (6.542). SIZE exhibits the largest standard deviation (1.944), and the outcome variable Tobin's Q has a standard deviation of 1.453.

Table 3 presents the Pearson correlation matrix for the variable of interest (CF and CONNECT) and other control variables. The correlation between the two primary variables of interest, CONNECT and CF, is 0.02 (2%). Moreover, the correlation coefficient between CONNECT_DON and CONNECT_PROM is 20%. Likewise, the correlation between CONNECT_DON and CF is 2%, and that between CONNECT_PROM and CF is 1%, both of which seem minimal.

Table 2. Descriptive Statistics

The table presents the summary statistics for all variables in the study. These statistics are presented as ratios and calculated at the firm level. Table 1 lists all variables and their descriptions.

Variable	N	Mean	Median	Stand		Max	Skewness	Kurtosis
				Dev	Min			
CONNECT	18,629	0.254	0.000	0.435	0	1	1.131	2.278
CONNECT_DON	18,629	0.123	0.000	0.328	0	1	2.298	6.279
CONNECT_PROM	18,629	0.166	0.000	0.372	0	1	1.791	4.209
CASH	18,629	0.039	0.013	0.071	-0.004	0.432	3.390	15.984
SIZE	18,629	22.281	22.370	1.944	16.157	26.869	-0.342	3.504
CF	18,629	0.058	0.057	0.096	-0.399	0.328	-1.197	9.207
CAPX	18,629	0.424	0.378	0.333	0.0000	1.000	0.883	3.706
LEV	18,629	0.266	0.231	0.248	0.0000	0.998	1.507	6.673
NS	18,629	0.822	0.715	0.708	-0.001	3.672	1.381	5.718
LOC	18,629	0.238	0.000	0.426	0	1	1.228	2.508
DIV	18,629	0.502	1.000	0.500	0	1	-0.010	1.000
GRP	18,629	0.022	0.000	0.146	0	1	6.542	43.794
Tobin's Q	18,629	1.155	0.684	1.453	0.001	9.054	3.157	14.788
Stock_Pledge	18,629	0.1698	0.1432	2.3210	0.010	0.4628	3.170	9.610
MS	18,629	0.030	0.002	0.098	0.000	0.716	5.298	33.288

Furthermore, the political connections variable CONNECT is positively associated with CAPX, suggesting that politically connected firms are more likely to engage in corporate investment. The correlation between audit fees and firm size (SIZE) is 46%. However, all correlation values between control variables and our main variables of interest are low, reducing the likelihood of multicollinearity, even though not all variables of interest are used in the same model.

Table 4 presents the results of the t-test for the difference in means and the Wilcoxon rank-sum test for politically connected firms classified through donation and promoter channels. Panel A (Panel B) in Table 4 presents mean (Median) values and mean difference test results for politically connected and non-connected sample firms. Panel A results show that politically connected firms, via their promoters (CONNECT_PROM), exhibit a significantly larger mean (median) Tobin's Q value of 1.516 (1.027). However, large firms are mostly politically connected via promoters, with a mean (median) of 24.680 (24.794). The politically non-connected firms show a high mean (median) value of net sales (NS) of 0.851(0.749). From the result of the paired sample t-test and Wilcoxon rank-sum, we observe that there has been a statistically significant difference (1% level) in mean values and median values of the outcome variable: firm leverage (LEV) and cost of equity (COE) between the politically non-connected firm and the politically connected firm. The negative sign in the mean and median differences in Tobin's Q between politically connected and non-politically connected firms implies that connected firms perform better than their non-connected peers.

Table 5 compares the covariates of treatment and control firms using mean and median values. After matching, we observe that the means and medians of each covariate differ significantly between the treatment and control groups. In addition, we also report the Stock return volatility of the pledging and non-pledging groups, and we observe that their differences are statistically significant at the 1% level. Here, we can conclude that the mean (median) of a) Stock return volatility and b) Firm-specific Stock return volatility of both groups are significantly different.

Table 3. Correlation Matrix

This table presents a correlation among the variables. The variables are: V1 is CONNECT, V2 is CONNECT_DON, V3 is CONNECT_PROM, V4 is CASH, V5 is SIZE, V6 is PB, V7 is NS, V8 is CAPX, V9 is LOC, V10 is CF, V11 is Tobin's Q (t), V12 is LEV, V13 is GRP, V14 is AGE, V15 is TANG, V16 is Stock_Pledge, V17 is (1/TA), V18 is STVTRD, V19 is MB, V20 is AUD and V21 is Pledge_under_pressure.

Variable	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V14	V15	V16	V17	V18	V19	V20
V2	0.64 ***	1																		
V3	0.77 ***	0.12 ***	1																	
V4	0.27 ***	0.19 ***	0.24 ***	1																
V5	0.41 ***	0.28 ***	0.35 ***	0.54 ***	1															
V6	0.18 ***	0.19 ***	0.08 ***	0.28 ***	0.32 ***	1														
V7	-0.07 ***	-0.02 ***	-0.09 ***	0.01 *	-0.15 ***	0.10 ***	1													
V8	-0.04 ***	0.00	-0.08 ***	-0.13 ***	-0.03 ***	-0.02 **	0.12 ***	1												
V9	0.02 ***	0.01	0.07 ***	0.07 ***	0.06 ***	0.05 ***	-0.04 ***	-0.15 ***	1											
V10	0.02 **	0.02 **	0.01	0.04 ***	0.05 ***	0.06 ***	0.05 ***	-0.00	0.01	1										
V11	0.13 ***	0.07 ***	0.11 ***	0.15 ***	0.18 ***	0.16 ***	0.07 ***	-0.03 ***	0.08 ***	-0.02 ***	1									
V12	0.06 ***	0.03 ***	0.05 ***	0.09 ***	0.02 ***	0.22 ***	0.00	0.24 ***	0.08 ***	0.08 ***	0.09 ***	1								
V13	0.22 ***	0.11 ***	0.30 ***	0.11 ***	0.19 ***	0.03 ***	-0.07 ***	-0.01	0.09 ***	-0.00	0.03 ***	0.01	1							
V14	0.10 ***	0.08 ***	0.07 ***	0.17 ***	0.28 ***	0.26 ***	-0.02 ***	0.09 ***	0.06 ***	0.03 ***	0.09 ***	-0.10 ***	0.05 ***	1						
V15	0.31 ***	0.25 ***	0.22 ***	0.41 ***	0.74 ***	0.26 ***	0.07 ***	0.21 ***	0.01	0.03 ***	0.14 ***	0.12 ***	0.12 ***	0.24 ***	1					

Table 3. Continued

Variable	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11	V12	V13	V14	V15	V16	V17	V18	V19	V20
V16	0.13 ***	0.11 ***	0.15 ***	0.01	0.07 **	-0.03 ***	-0.09 ***	0.11 ***	0.08 **	0.11 ***	0.04 ***	0.01 *	0.15 ***	0.09 ***	0.23 ***	1				
V17	-0.11 ***	-0.08 ***	-0.08 ***	-0.17 ***	-0.55 ***	-0.19 ***	0.02 **	-0.07 ***	-0.02 ***	-0.13 ***	-0.04 ***	0.05 ***	-0.03 ***	-0.17 ***	-0.34 ***	0.06 ***	1			
V18	0.09 ***	0.04 ***	0.08 ***	0.14 ***	0.11 ***	0.13 ***	0.06 ***	-0.06 ***	0.06 ***	-0.25 ***	0.78 ***	0.22 ***	0.01 ***	0.07 ***	0.08 ***	-0.12 ***	-0.00	1		
V19	0.04 **	0.01	0.04 ***	0.04 ***	0.05 ***	0.04 ***	0.02 ***	-0.02 ***	0.01	0.01	0.21 ***	-0.06 ***	0.00	0.03 ***	0.04 ***	-0.02 **	-0.02 ***	0.21 ***	1	
V20	0.23 ***	0.11 ***	0.26 ***	0.14 ***	0.18 ***	0.05 ***	-0.06 ***	-0.01	0.09 ***	0.00	0.05 ***	0.03 ***	0.66 ***	0.08 ***	0.11 ***	0.20 ***	-0.03 ***	0.04 ***	0.03 ***	1
V21	0.04 ***	0.03 ***	0.01 **	0.07 ***	0.08 ***	-0.18 ***	0.09 ***	0.07 ***	0.03 ***	0.05 ***	0.13 ***	0.59 ***	0.01*	0.05 ***	0.12 ***	0.33 ***	0.09 ***	-0.22 ***	0.05 ***	0.02 ***

Notes: Correlations are statistically significant at the 10% (*), 5% (**), and 1% (***) levels, while Bold relations are statistically significant at the 1% level. Symbols *, **, and *** show the significance level at 10%, 5%, and 1%, respectively.

SHARE PLEDGING AND POLITICAL CONNECTION: BASELINE MODEL

Table 6 presents the relationship between share-pledging firms and their promoters' political connections, as analysed using multivariate panel data regression. The coefficients for Connect are 0.110 and 0.114, which are positive and statistically significant at the 1% level, indicating that politically connected firms are more likely to engage in pledging activities. The coefficients for CONNECT_DON and CONNECT_PROM are 0.077 and 0.111, respectively, both positive and statistically significant. Therefore, we posit that politically connected firms and all their channels (political connections via donations or promoters) are positively and significantly associated with pledging activities. In addition, the control variable firm leverage (LEV) coefficient is 0.013, which is positive and statistically significant, indicating that promoters of firms involved in pledging activities are borrowing and acquiring debt from lenders, thereby enhancing their leverage. Therefore, promoters indeed exhibit significantly higher leverage.

SHARE PLEDGING AND POLITICAL CONNECTION: FIRM PERFORMANCE

Table 7 examines the association between share-pledging activities and the performance of firms with political connections. The coefficient of CONNECT, which includes donation and promoter channels, is positive and statistically significant, suggesting that politically connected firms outperform their non-connected peers (Goldman et al., 2013; Ovtchinnikov & Pantaleoni, 2012). Furthermore, the negative coefficient for Stock_Pledge indicates a significant adverse impact of share pledging on firm performance indicators, such as Market Share (MS) and Tobin's Q. However, the negative, statistically significant coefficient for the interaction term between Stock_Pledge and CONNECT indicates

that politically connected firms that experience share pledging tend to have diminished firm value. These findings remain consistent across donation and owner/promoter channels. Additionally, consistent with prior research, the interaction with the pledging variable (Stock_Pledge) remains statistically significant and negative. Therefore, we posit that politically connected firms produce significantly higher and better performance. On the contrary, firms that pledge their shares experience notably lower performance. However, when politically connected firms engage in share pledging, their performance significantly diminishes.

Table 4. Univariate Analysis

Panel A presents the mean values and differences between four categories of firms: firms with no political connection (X) and firms connected directly through donations (A). Firms that are indirectly connected (B) and firms that are politically connected (C) overall. We perform a paired-samples t-test to estimate the mean differences between the main variables across these four groups. Panel B presents the median values and differences between the aforementioned four categories of firms. We perform a Wilcoxon rank-sum test to calculate median differences for these four groups.

Panel A. Mean Values

Category: Firm	Tobin's Q	SIZE	CF	LEV	CAPX	NS	ROA
No Connection (X)	1.049	21.819	0.054	0.275	0.432	0.851	0.083
CONNECT_DON (A)	1.432	23.738	0.083	0.247	0.429	0.789	0.114
CONNECT_PROM (B)	1.503	23.783	0.064	0.235	0.367	0.664	0.094
CONNECT (C)	1.515	24.680	0.069	0.259	0.326	0.575	0.097

Mean Difference	Tobin's Q	SIZE	CF	LEV	CAPX	NS	ROA
(X-A)	-0.383***	-1.919***	-0.029***	0.027***	0.003	0.062***	-0.030***
(X-B)	-0.454***	-1.964***	-0.010**	0.040***	0.065***	0.188***	-0.010***
(X-C)	-0.466***	-2.861***	-0.015***	0.016*	0.106***	0.277***	-0.014***
(C-A)	0.083	0.942***	-0.014***	0.012	-0.103***	-0.215***	-0.016***
(C-B)	0.012	0.897***	0.005	0.024***	-0.041***	-0.089***	0.003
(B-A)	0.071	0.045	-0.019***	-0.012**	-0.062***	-0.125***	-0.020***

Panel B. Median Values

Category: Firm	Tobin's Q	SIZE	CF	LEV	CAPX	NS	ROA
No Connection (X)	0.635	21.970	0.053	0.237	0.380	0.749	0.081
CONNECT_DON (A)	0.873	23.759	0.074	0.234	0.404	0.746	0.103
CONNECT_PROM (B)	0.936	23.795	0.059	0.203	0.327	0.533	0.085
CONNECT (C)	1.027	24.794	0.062	0.235	0.272	0.537	0.091

Median Difference	Tobin's Q	SIZE	CF	LEV	CAPX	NS	ROA
(X-A)	-0.238***	-1.789***	-0.021***	0.003	-0.024***	0.003	-0.022***
(X-B)	-0.302***	-1.825***	-0.006***	0.034***	0.053***	0.216***	-0.004***
(X-C)	-0.393***	-2.824***	-0.008***	0.002	0.108***	0.212***	-0.010***
(C-A)	0.154***	1.035***	-0.013***	0.002**	-0.131***	-0.209***	-0.012***
(C-B)	0.091**	0.999***	0.003	0.033***	-0.055**	0.004	0.006*
(B-A)	0.063	0.036	-0.016***	-0.031***	-0.077***	-0.213***	-0.018***

Note: *, **, and *** represents significance level at 10%, 5% and 1%, respectively.

Table 5. Difference in Means

Panel A presents the differences in mean value between two categories of firms: pledging firms, which pledge their shares, and non-pledging firms. We perform a paired-samples t-test to estimate the mean difference between two categories of firms. Furthermore, Panel B presents the differences between the two categories of firms mentioned above. Here, we apply the Wilcoxon rank-sum test to estimate median differences between the two firm categories.

Variable	Mean Value		Difference	t-value	P-Value
	Stock Pledging Group	Non-Stock Pledging Group			
LEV	0.397	0.270	0.127***	6.669	0.000
SIZE	2.378	1.264	1.113***	39.175	0.000
PReturn	0.635	0.396	0.239**	2.389	0.017
PB	2.188	1.864	0.324**	2.374	0.018
Stock Return Volatility	3.075	2.148	0.928***	30.425	0.000
Firm Specific Return Volatility	2.835	1.932	0.903***	25.426	0.000

Variable	Median Value		Difference	Test stat (W)	P-Value
	Stock Pledging Group	Non-Stock Pledging Group			
LEV	0.309	0.191	0.118***	43115559	0.000
SIZE	2.274	1.338	0.936***	44709233	0.000
PReturn	0.000	0.000	0.000**	34301214	0.013
PB	0.86	0.65	0.210**	37150058	0.014
Stock Return Volatility	3.191	2.328	0.863***	44036773	0.000
Firm Specific Return Volatility	2.734	1.879	0.855***	35219876	0.000

Note: *, **, and *** represent significance levels at 10%, 5%, and 1%, respectively.

SHARE PLEDGING AND POLITICAL CONNECTION: STOCK RETURN VOLATILITY

Table 8 shows that the volatility coefficients are positive and significant, indicating higher downside volatility for promoters in pledging firms. Conversely, politically connected firms experience significantly lower downside risk or volatility, as evidenced by the positive and significant coefficients of CONNECT for both Stock return volatility and Firm-specific Stock return volatility. However, the negative coefficient for the interaction variable (CONNECT and Stock_Pledge) suggests that politically connected, share-pledging firms face lower downside risk. Additionally, our examination of stock return volatility for Pledge_under_pressure yields results similar to those observed for Stock_Pledge. Therefore, we argue that firms that engage in share pledging use political connections to mitigate downside volatility, particularly under margin call pressure.

The metrics used to measure downside risk are skewness (Skew) and kurtosis (Kurt). Skewness is the measure of the asymmetry of a distribution, whereas kurtosis is the measure of the peakedness of a distribution. Table 9 shows that the coefficient of skewness is positive and statistically significant for the pledge (Stock_Pledge) variable, negative and statistically significant for the connect (CONNECT) variable from columns (1) to (4), which implies that pledging of shares by the promoter significantly increases the skewness of return in comparison to a non-pledging promoter firm. Furthermore,

Table 6. Pooled Regression

This table reports the pooled regression results for the pledging of shares by firms based on their political connections. We include CONNECT as a variable to capture firms' political connections. Additionally, we categorize CONNECT_DON and CONNECT_PROM as two distinct types of political connections. We examine whether there is an association between political connections and firms' pledging activities. Firm- and year-fixed effects are included in the regression model.

Variable	Stock_Pledge			
	(1)	(2)	(3)	(4)
CONNECT	0.110*** (0.007)	0.114*** (0.007)		
CONNECT_DON			0.077*** (0.010)	0.094*** (0.010)
CONNECT_PROM			0.111*** (0.009)	0.101*** (0.009)
LEV		0.013*** (0.003)		0.013*** (0.003)
PB		0.002*** (0.001)		0.002*** (0.001)
NS		-0.035*** (0.005)		-0.034*** (0.005)
LOC		0.021*** (0.007)		0.018** (0.007)
TOBIN'S Q		0.003 (0.003)		0.003 (0.003)
CF		-0.756*** (0.036)		-0.755*** (0.036)
AGE		0.001*** (0.000)		0.001*** (0.000)
Observation	18,619	18,619	18,619	18,619
Adj R Square	0.0121	0.0506	0.0134	0.0511
F Statistics	228.4***	125.0***	127.3***	112.4***
Firm Fixed Effect	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes

Notes: Consistent standard errors at the firm level are reported in parentheses. Symbol *, **, and *** represents significance level at 10%, 5%, and 1%, respectively. All variables are winsorized at the 1st percentile (bottom) and 99th percentile (top).

politically connected firms have substantially lower and less skewed returns than their non-connected peers.

STOCK PLEDGING, POLITICAL CONNECTION: FIRM INVESTMENT

Table 10 shows a negative and significant coefficient for Stock_Pledge, indicating that pledging activities are associated with lower margin call pressure (Pledge_under_pressure). These imply that promoters significantly reduce firms' investment levels as stock-pledging activities increase. When there is an overlap between stock price decline and share pledging, promoters further reduce corporate investment, thereby increasing margin call pressure. However, the interaction between the

Table 7. Stock Performance, Pledging of Shares of Promoter & Political Connections

The Table presents panel data regression results on firm performance and political connections, controlling for stock pledging. Two proxies measure firm performances in- a) Tobin's Q and b) MS (Market share of firms) in any year. We deploy the donations and promoter channels in the model to assess the impact of political connections on firm performance. We have controlled for the model's firm- and year-fixed effects.

Variables	Tobin's Q					MS		
	I	II	III	IV	V	VI	VII	VIII
Stock_Pledge	-0.006 *** (0.001)	-0.009 *** (0.001)	-0.006 *** (0.001)	0.010 *** (0.001)	-0.022 *** (0.007)	-0.080 *** (0.006)	-0.018 *** (0.006)	-0.072 *** (0.006)
CONNECT	0.448 *** (0.026)	0.186 *** (0.025)			6.422 *** (0.171)	2.358 *** (0.165)		
Stock_Pledge*CONNECT	-0.006 *** (0.002)	-0.005 *** (0.002)			-0.058 *** (0.013)	-0.052 *** (0.012)		
CONNECT_DON			0.295 *** (0.035)	0.111 *** (0.032)			6.813 *** (0.226)	3.675 *** (0.211)
CONNECT_PROM			0.430 *** (0.031)	0.165 *** (0.029)			6.944 *** (0.201)	3.413 *** (0.191)
Stock_Pledge*CONNECT_DON			-0.006 ** (0.003)	-0.006 ** (0.003)			-0.156 *** (0.019)	-0.106 *** (0.017)
Stock_Pledge*CONNECT_PROM			-0.004 ** (0.002)	-0.002 ** (0.002)			-0.039 *** (0.014)	-0.042 *** (0.013)
LEV		0.278 *** (0.009)		0.279 *** (0.009)		0.175 *** (0.059)		0.157 *** (0.058)
PB		0.082 *** (0.001)		0.082 *** (0.001)		0.180 *** (0.009)		0.180 *** 0.008
SIZE		0.112 *** (0.005)		0.112 *** (0.006)		2.163 *** (0.036)		1.993 *** (0.036)
NS		0.157 *** (0.053)		0.159 *** (0.013)		0.362 *** (0.089)		0.403 *** (0.088)
AGE		0.002 *** (0.000)		0.002 *** (0.000)		0.003 (0.003)		0.004 (0.003)
LOC		0.227 *** (0.022)		0.221 *** (0.022)		1.846 *** (0.146)		1.746 *** (0.144)
N	18,619	18,619	18,619	18,619	18,619	18,619	18,619	18,619
Adj R Square	0.0197	0.2423	0.0195	0.2419	0.0774	0.2645	0.1212	0.2816
F-Stat	126.2 ***	662.5 ***	74.93 ***	541 ***	521.3 ***	745.1 ***	514.6 ***	664.3 ***
Firm Fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Consistent standard errors at the firm level are reported in parentheses. Symbol *, **, and *** represents significance level at 10%, 5%, and 1%, respectively. All variables are winsorized at the bottom and top 1%.

Table 8. Stock Return Volatility, Pledging of the Promoter, and Political Connections

The Table presents a panel-data regression of stock return volatility on firms' share pledging. We have taken two proxies to measure volatility: a) Stock return volatility, b) Firm-specific Stock return volatility. Furthermore, we have taken two distinct proxies for pledging shares: a) Stock_Pledge, and b) Pledge_under_press. We have controlled for both firm- and year-fixed effects.

Variables	Stock Return Volatility	Firm-Specific Stock Return Volatility	Stock Return Volatility	Firm-Specific Stock Return Volatility	Stock Return Volatility	Firm-Specific Stock Return Volatility	Stock Return Volatility	Firm-Specific Stock Return Volatility
Stock_Pledge	0.021 *** (0.001)	0.021 *** (0.001)			0.021 *** (0.001)	0.021 *** (0.001)		
CONNECT	-0.234 *** (0.036)	-0.241 *** (0.036)	-0.215 *** (0.036)	-0.211 *** (0.036)				
Stock_Pledge*CONNECT	-0.008 *** (0.003)	-0.007 *** (0.003)						
CONNECT_DON					-0.195 *** (0.047)	-0.203 *** (0.047)	-0.156 *** (0.046)	-0.161 *** (0.047)
CONNECT_PROM					-0.238 *** (0.042)	-0.240 *** (0.042)	-0.206 *** (0.042)	-0.198 *** (0.043)
Stock_Pledge*CONNECT_DON					-0.000 (0.004)	-0.001 (0.004)		
Stock_Pledge*CONNECT_PROM					-0.010 *** (0.003)	-0.009 *** (0.003)	1.102 *** (0.048)	1.110 *** (0.049)
Pledge_under_pressure			1.120 *** (0.049)	1.128 *** (0.049)	1.102 *** (0.048)	1.110 *** (0.049)		
Pledge_under_pressure*CONNECT			-0.477 *** (0.083)	-0.513 *** (0.084)				
Pledge_under_pressure*CONNECT_DON					-0.292 *** (0.112)	-0.288 ** (0.114)	-0.292 *** (0.112)	-0.288 ** (0.114)
Pledge_under_pressure*CONNECT_PROM					-0.407 *** (0.095)	-0.408 *** (0.096)	-0.407 *** (0.095)	-0.408 *** (0.096)
Prior_ret	0.030 *** (0.003)	0.027 *** (0.003)	0.025 *** (0.003)	0.029 *** (0.003)	0.029 *** (0.003)	0.026 *** (0.003)	0.025 *** (0.003)	0.027 *** (0.004)
LEV	0.096 *** (0.013)	0.062 *** (0.013)	0.061 *** (0.013)	0.058 *** (0.013)	0.100 *** (0.013)	0.066 *** (0.013)	0.062 *** (0.013)	0.059 *** (0.013)
PB	0.018 *** (0.002)	0.016 *** (0.002)	0.016 *** (0.002)	0.016 *** (0.002)	0.018 *** (0.002)	0.016 *** (0.002)	0.016 *** (0.002)	0.014 *** (0.002)
SIZE	0.127 *** (0.008)	-0.011 (0.008)	-0.027 *** (0.008)	-0.024 *** (0.008)	0.139 *** (0.008)	-0.004 *** (0.008)	-0.025 *** (0.008)	-0.022 *** (0.008)

Table 8. Continued

Variables	Stock Return Volatility	Firm-Specific Stock Return Volatility	Stock Return Volatility	Firm-Specific Stock Return Volatility	Stock Return Volatility	Firm-Specific Stock Return Volatility	Stock Return Volatility	Firm-Specific Stock Return Volatility
ROA	-2.471 *** (0.169)	-2.535 *** (0.168)	-2.400 *** (0.166)	-2.398 *** (0.164)	-2.486 *** (0.169)	-2.550 *** (0.167)	-2.422 *** (0.166)	-2.429 *** (0.169)
AGE	0.005 *** (0.001)	0.005 *** (0.001)	0.004 *** (0.001)	0.004 *** (0.001)	0.005 *** (0.001)	0.004 *** (0.001)	0.004 *** (0.001)	0.004 *** (0.001)
CF	-0.593 *** (0.188)	-0.813 *** (0.187)	-0.676 ** (0.185)	-0.656 *** (0.182)	-0.633 *** (0.188)	-0.855 ** (0.187)	-0.678 ** (0.185)	-0.646 *** (0.184)
N	18,619	18,619	18,619	18,619	18,619	18,619	18,619	18,619
Adj R Square	0.0831	0.0663	0.0828	0.0829	0.0859	0.0671	0.0828	0.0823
F-Stat	169.7 ***	133.2 ***	169.1 ***	154.0 ***	146.9 ***	112.5 ***	141.1 ***	140.2 ***
Firm Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Consistent standard errors at the firm level are reported in parentheses. Symbol *, **, and *** represents significance level at 10%, 5%, and 1%, respectively. All variables are winsorized at the bottom and top 1%.

pledging and connection variable (CONNECT) is positive and statistically significant. This implies that politically connected firms significantly increase investment levels despite pledging activities and margin call pressure. Thus, our results support the testable hypothesis: promoter share pledging, especially when intensified by margin call pressure, significantly lowers corporate investment in firms without political connections.

Table 9. Skewness and Kurtosis, Pledging of Shares by Promoter, Political Connections

The Table presents panel data regression of firm risk measures on the firm's pledging activities of its shares. We have taken two proxies to measure risk: a) skewness of stock return (skew), and b) kurtosis of return (kurt). Furthermore, we have taken two distinct proxies for pledging shares: a) Stock_Pledge and b) Pledge_under_pressure. We have controlled for both firm- and year-fixed effects.

Variables	Skew	Kurt	Skew	Kurt	Skew	Kurt	Skew	Kurt
Stock_Pledge	0.005 *** (0.001)	0.028 *** (0.005)			0.005 *** (0.001)	0.027 *** (0.005)		
CONNECT	-0.013 (0.016)	0.521 *** (0.130)	-0.035 ** (0.016)	0.472 *** (0.130)				
Stock_Pledge*CONNECT	-0.001 (0.001)	0.022 ** (0.010)						
CONNECT_DON					-0.060 *** (0.022)	-0.059 (0.174)	-0.018 (0.022)	-0.130 (0.174)
CONNECT_PROM					0.006 *** (0.020)	0.709 *** (0.155)	0.046 ** (0.020)	0.916 *** (0.155)

Table 9. Continued

Variables	Skew	Kurt	Skew	Kurt	Skew	Kurt	Skew	Kurt
Stock_Pledge*CONNECT_DON					0.004 **	0.010		
					(0.002)	(0.014)		
Stock_Pledge*CONNECT_PROM					0.004 ***	0.026 **		
					(0.001)	(0.001)		
Pledge_under_pressure			0.20 2***	1.752 ***			0.190 ***	1.879 ***
			(0.024)	(0.187)			(0.023)	(0.182)
Pledge_under_pressure*CONNECT			-0.250 ***	0.280				
			(0.041)	(0.326)				
Pledge_under_pressure*CONNECT_DON							0.051 (0.055)	0.450 (0.437)
Pledge_under_pressure*CONNECT_PROM							-0.269 ***	0.097 (0.372)
							(0.047)	(0.372)
Prior_ret	0.008 ***	0.009	0.008 ***	0.011	0.008 ***	0.010	0.008 ***	0.012
	(0.002)	(0.012)	(0.002)	(0.012)	(0.002)	(0.012)	(0.002)	(0.012)
LEV	-0.013 **	-0.123 **	-0.022 ***	-0.171 **	-0.013 **	-0.122 **	-0.022 **	-0.172 ***
	(0.007)	(0.053)	(0.006)	(0.050)	(0.007)	(0.053)	(0.006)	(0.050)
PB	0.010 **	0.048 ***	0.010 ***	0.051 ***	0.009 ***	0.048 ***	0.010 ***	0.051 ***
	(0.001)	(0.008)	(0.001)	(0.008)	(0.001)	(0.008)	(0.001)	(0.008)
CAPX	0.001 ***	0.004	-0.002	-0.012	0.001 ***	0.004	-0.002	-0.013
	(0.000)	(0.003)	(0.003)	(0.021)	(0.000)	(0.003)	(0.003)	(0.021)
ROA	-0.37 7***	-1.592 **	-0.384 ***	-1.307 **	-0.374 ***	-1.482 **	-0.378 ***	-1.179 *
	(0.081)	(0.646)	(0.082)	(0.648)	(0.081)	(0.645)	(0.082)	(0.647)
CF	0.261 ***	2.193 ***	0.294 ***	2.863 ***	0.269 ***	2.246 ***	0.297 ***	2.959 ***
	(0.090)	(0.718)	(0.090)	(0.718)	(0.090)	(0.718)	(0.091)	(0.718)
N	18,619	18,619	18,619	18,619	18,619	18,619	18,619	18,619
Adj R Square	0.0189	0.0176	0.0270	0.0216	0.0195	0.0181	0.0198	0.0221
F-Stat	36.95 ***	34.28 ***	34.05 ***	38.29 ***	31.9 ***	29.65 ***	29.85 ***	33.47 ***
Firm Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Consistent standard errors at the firm level are reported in parentheses. Symbol *, **, and *** represents significance level at 10%, 5%, and 1%, respectively. All variables are winsorized at the bottom and top 1%.

CONCLUSION

Share pledging by controlling shareholders represents an important governance channel through which personal leverage can be transmitted into corporate risk-taking and decision-making. The literature flags that pledging may intensify agency conflicts, distort investment and financing policies, and impose potential costs on minority shareholders, creditors, and employees. Although share

Table 10. Firm Investment, Political Connection & Stock Pledging

The Table presents panel-data regression results on firm investment and political connections, and on firms' share pledging activity. Firm investment is measured by the asset growth of a firm in any year. We deploy the political connections and pledge variables to examine the impact of politically connected firms that pledge their shares on their investment decisions. We have controlled for both firm- and year-fixed effects in the model.

Variable	Asset Growth					
	I	II	III	IV	V	VI
Stock_pledge	-0.015*** (0.002)	-0.013*** (0.002)	-0.010*** (0.002)	-0.014*** (0.002)	-0.012*** (0.002)	-0.008*** (0.002)
CONNECT	1.781*** (0.060)	1.595*** (0.060)	1.600*** (0.060)			
Stock_pledge*CONNECT	0.008* (0.004)	0.010** (0.004)	0.010** (0.004)			
CONNECT_DON				1.604*** (0.081)	1.469*** (0.080)	1.475*** (0.081)
CONNECT_PROM				1.498*** (0.072)	1.326*** (0.072)	1.333*** (0.072)
Stock_pledge*CONNECT_DON				-0.008 (0.007)	-0.005 (0.007)	
Stock_pledge*CONNECT_PROM				0.005 (0.005)	0.007 (0.005)	
Pledge_under_pressure			-0.208** (0.082)			-0.220*** (0.082)
Prior_ret		0.015*** (0.006)	0.016*** (0.006)		0.016*** (0.006)	0.016*** (0.006)
TobinQ		0.268*** (0.018)	0.266*** (0.018)		0.267*** (0.018)	0.265*** (0.018)
PB		0.015*** (0.004)	0.015*** (0.004)		0.016*** (0.014)	0.016*** (0.004)
BM		0.009*** (0.001)	0.009*** (0.001)		0.009*** (0.001)	0.009*** (0.001)
AGE		0.008*** (0.001)	0.008*** (0.001)		0.008*** (0.001)	0.008*** (0.001)
N	18,619	18,619	18,619	18,619	18,619	18,619
Adj R Square	0.0571	0.0785	0.0787	0.058	0.0797	0.08
F-Stat	376.7***	199.2***	177.8***	230.2***	162.2***	148.2***
Firm Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Consistent standard errors at the firm level are reported in parentheses. Symbol *, **, and *** represents significance level at 10%, 5%, and 1%, respectively. All variables are winsorized at the bottom and top 1%.

pledging can provide short-term liquidity benefits, broader evidence suggests it may also exacerbate managerial entrenchment and increase systemic risk, particularly in firms with concentrated ownership structures. These considerations imply that policymakers and investors should view share pledging as a material governance risk that warrants greater transparency and careful monitoring.

This study examines two relatively underexplored questions concerning share pledging in politically connected firms. First, it examines whether promoters of politically connected firms engage more frequently in share pledging to raise capital for investment purposes. Second, it analyses whether the capital obtained through share pledging and subsequently invested in projects enhances firm value. Existing literature suggests that politically connected firms derive several advantages from political proximity, including access to low-cost external financing, preferential access to resources, and

regulatory protection during adverse conditions. Consequently, the propensity of promoters in politically connected firms to pledge shares is expected to be relatively low.

The findings show a substantive impact of political connections on the promoters' share-pledging activities. According to the 2009 SEBI regulations, firms must disclose information about pledging when promoters pledge their shares to acquire personal debt, even though SEBI regulations do not require disclosure of the proceeds from the debt. Another aspect of pledge share activities is the margin requirement: the initial margin is between 50% and 70% of the initial share value, with the remaining amount serving as collateral. Furthermore, margin calls are triggered when the stock price declines significantly below the margin requirement.

The findings show that politically connected Indian firms actively use stock-pledging to raise additional capital. The politically connected firms are significantly more involved in higher corporate capital investment, whereas their share-pledging activities have an adverse impact on investment decisions. The results also show that politically connected firms are considerably less volatile and exhibit lower downside risk, as measured by the skewness and kurtosis of their returns.

This study contributes to the literature by providing new evidence on the relationship between firms' political connections and promoter share-pledging activities, highlighting how political proximity may influence the use of share pledging as a financing mechanism. The findings also offer important managerial and policy implications. For regulators, the results highlight the need for stronger monitoring and disclosure frameworks regarding promoter share pledging, particularly in firms where political connections are established through the promoter channel. For managers, the study emphasizes the importance of carefully evaluating the risks associated with excessive pledging, as high levels of pledged shares may increase the likelihood of margin calls and financial distress during market downturns. While political connections may facilitate access to financing, government contracts, and regulatory support, overreliance on such ties may raise concerns about governance quality and long-term sustainability. The study also has certain limitations. Given India's multi-party political system, data on political donations particularly, for regional parties, is limited or unavailable for some years. Additionally, as the study was initiated in 2022–23, it does not incorporate data from the 2024 election cycle, which may capture further developments in corporate political engagement.

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APPENDIX

Table A1. Registered Electoral Trusts in India

The table presents the complete list of electoral trusts registered with the Election Commission of India. All the electoral trusts are involved in political donations to political parties. The trusts are established within various business groups, such as Bharti, Tata, and Aditya Birla, to channel funds from firms and individuals to political parties. The government of India launched "The Electoral Trust Scheme" in 2013 to bring transparency to electoral funding, revealing the sources of funding and the disbursement to political parties. The table presents several reputed business houses in India, which are mostly owned by individuals associated with electoral trusts. The electoral Trust is permitted to retain 5%. Satya Electoral Trust is the only Trust that has submitted contribution reports to the Indian government for all six years, from 2013-14 to 2018-19. Satya is the most significant electoral⁷ Trust among all in terms of receiving donations from political parties.

SL No	Electoral Trust	Business Group
1	Satya/Prudent Electoral Trust	Bharti Group
2	AB General Electoral Trust	Aditya Electoral Trust
3	Progressive Electoral Trust	Tata group
4	Samaj Electoral Trust	KK Birla Group
5	Triumph Electoral Trust	Murugappa Group
6	New Democratic Electoral Trust	Mahindra Group
7	Jan Pragati Electoral Trust	Jan Pragati Group
8	Janta Nirvachak Electoral Trust	Kotak Group
9	Kalyan Electoral Trust	Bharat Group

Table A2. Firms belonging to electoral trusts

This table presents a list of firms under each electoral Trust.⁸ All these firms tend to make financial contributions to political parties over time via electoral Trusts. The data are gathered from reports of the Election Commission of India. Satya Electoral Trust has the largest number of firms among electoral trusts. The firms need to disclose donations to the electoral Trust every year.

Electoral Trust Name	Firm Name
Satya/Prudent Electoral Trust	DLF Ltd
	India Bull Housing Ltd
	Hero Moto Corp
	Bharti Infratel Ltd
	Kalpataru Power Transmission Ltd
	JSW energy
	JSW Steel Ltd
	Torrent Pharma Ltd
	Torrent Power
	Piramal Finance
	United Phosphorus Ltd
	Max India Ltd
	Lloyd Line Pipe Ltd

⁷ Report published in business today on November 5, 2018

<https://www.businesstoday.in/current/corporate/prudent-electoral-trust-richest-trust-gives-rs-144-cr-of-rs-169-cr-funds-bjp-fy18/story/288385.html>

⁸ Sources: Election Commission of India Website

Table A2. Continued

Electoral Trust Name	Firm Name
Satya/Prudent Electoral Trust	<i>Jubilant Life Science Ltd</i>
	<i>Jubilant Food Ltd</i>
	<i>DCM Shriram Ltd</i>
	<i>Soril Infra Ltd</i>
	<i>JMC Projects Ltd</i>
	<i>Crescent Power Ltd</i>
	<i>Himatsingka Seide Ltd</i>
	<i>Haldia Energy Ltd (CESC Ltd)-RPSG group</i>
	<i>GMR Infra Ltd</i>
	<i>Wockhardt Ltd</i>
	<i>Minda Industries Ltd</i>
	<i>HIL Ltd</i>
	<i>HEG Ltd</i>
	<i>JK Tyre Ltd</i>
	<i>Orient Cement Ltd</i>
	<i>Chambal Fertiliser Ltd</i>
Progressive Electoral Trust	<i>Interglobe Aviation Ltd</i>
	<i>JK Lakshmi Cement Ltd</i>
	<i>Tata Consultancy Services (TCS)</i>
	<i>Tata Steel Ltd.</i>
	<i>Tata Motors Ltd.</i>
	<i>Tata Global Beverages Ltd.</i>
Ab General Electoral Trust	<i>Tata Power Ltd.</i>
	<i>Tata Chemicals Ltd.</i>
	<i>Indian Hotel Company Ltd.</i>
Samaj Electoral Trust	<i>Ultra Tech Cement Ltd.</i>
	<i>Hindalco Ltd.</i>
Janta Nirvachak Electoral Trust	<i>Grasim Industries Ltd.</i>
	<i>TVS Motors Company Ltd</i>
New Democratic Electoral Trust Ltd	<i>Sutlej Textiles & Industries Ltd</i>
	<i>Avadh Sugar & Energy Ltd</i>
	<i>Kotak Mahindra Bank Ltd.</i>
	<i>Mahindra & Mahindra Ltd</i>
	<i>Mahindra Holidays & Resorts India Ltd</i>
	<i>Mahindra & Mahindra Financial Services Ltd</i>
	<i>Tech Mahindra Ltd</i>

Table A2. Continued

Electoral Trust Name	Firm Name
Triumph Electoral Trust	<i>Tube Investment of India Ltd</i>
	<i>Carborundum Universal Ltd.</i>
	<i>Cholamandalam Investment & Finance Ltd</i>
	<i>Coromandel International Ltd</i>
	<i>Eid Parry (India) Ltd</i>
Jan Pragati Electoral Trust	<i>Zensar Technologies Ltd</i>
	<i>KEC International Ltd</i>
	<i>CEAT Ltd</i>