Firm Type and Unconditional Conservatism: The Indian Experience with IFRS Convergence

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ABSTRACT

This paper investigates how private and public firms vary with respect to unconditional conservatism in financial reporting in the pre and post IFRS worlds. I consider unconditional conservatism (UC) which pre-empts the more commonly studied conditional conservatism, private firms that are differently regulated, IFRS convergence instead of the more uniform IFRS adoption and an emerging market. Using a large Indian sample of 63,000 observations across more than 15,500 firms (~41% are private) over 10 years (2011-2020), I show that private firms are less unconditionally conservative than public firms. Also, contrary to literature, IFRS convergence increases conservatism in India and reduces the conservatism gap between private and public firms. These results hold even after controlling for monitoring, governance, and group-affiliation. This adds significantly to our understanding of how the effect of uniform accounting standards on reporting choices of different firm types varies significantly by and within a context and region.

KEYWORDS

Financial Reporting Quality, Private Firms, Accounting Regulation, Emerging Markets, Information Asymmetry, Concentrated Ownership

JEL Codes: L33, M41, M48, G32, G34

"Globalization remains a potent economic and political force, and drives the demand for globalization in accounting. Nevertheless, most political and commercial activity remains local, so adoption of uniform rules does not by itself lead to uniform reporting behavior around the world." ~ Ball (2016)

INTRODUCTION

How does convergence (versus adoption) to the International Financial Reporting Standards (IFRS) impact conservatism in reporting? Do all firms (public and private) in the economy respond similarly? In this paper, I investigate how private firms differ from public firms with respect to reporting conservatism and how the convergence to newer accounting standards moderates the difference. I particularly focus on two key aspects around accounting regulation - unconditional conservatism as a reporting attribute and private firms as an organization form.

Conservative accounting is intended to ensure higher quality and prudent reporting. It protects against downside risk and improves contracting efficiency by mitigating agency costs (Watts, 2003). However, conservatism can also cause deliberate understatement and provide opportunities for earnings manipulation, thus actually reducing contracting efficiency and reporting quality (Penman and Zhang, 2002; Chen, et al., 2007). This uncertainty about the effect of conservatism on the quality of financial reporting has meant that conservatism as a reporting attribute has been eternally debated.

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Recently, conservatism become very relevant since the very public and long-continuing 2009 IASB-FASB[1] debate surrounding the relevance of conservatism in reporting, wherein the IASB and FASB dropped prudence from their frameworks in 2010, to reintroduce it again in IASB's 2015 Exposure Draft of its new Conceptual Framework for Financial Reporting (Cooper, 2015; Hellman, 2008), finally ending with the reintroduction of 'cautious' conservatism in 2018 by IASB (Orpheus, et al., 2023; Pelger, 2020). This debate also led to a series of review papers on conservatism (Xie, 2015; Ruch and Taylor, 2015; Mora and Walker, 2015), all highlighting some serious gaps in the current understanding of conservatism. The recent revisions to conceptual frameworks by the IASB and FASB and the discussions of converging the GAAP and IFRS to seek more global standards has increased the spotlight on conservatism further.[2]

Extant literature documents two types of conservatism (Beaver and Ryan, 2005; Ball, et al., 2008): unconditional (UC) and conditional (CC). CC is news-based (ex-post) and relates to the asymmetric recognition of unrealized losses more than unrealized gains. UC, on the other hand, is not news based (ex-ante), is more pervasive, pre-empts CC and involves a continuous understatement of assets or overstatement of liabilities. This includes examples such as expensing R&D spends instead of capitalizing it.[3] Unlike CC, UC also remains more relevant in a fair value world. Iatridis (2011) documents how CC and UC are inversely related and may therefore, be used to meet different incentives (see Qiang, 2007). This makes UC a very significant reporting choice, and I explore how the new accounting standards impact this reporting choice.

Even though there is an overwhelming influence of conservatism in reporting, the economics behind its demand is still widely debated, particularly with respect to the need for information and so, agency theory and capital structure theory. Does the need for conservatism change when capital providers or type of capital provided change? This becomes a pertinent question when considering different organizational structures such as public and private firms. Private firms are different from public firms in their ownership, management, operations, compensation and governance dynamics, all of which influence financial reporting (Ball and Shivakumar, 2005). Extant literature has discussed stark differences between public and private firms, particularly in capital allocation and investment decisions (Mortal and Reisel, 2013). Unlike private firms, public firms have access to additional sources of capital and enjoy liquidity of public equity markets. This lowers information asymmetry and helps monitoring, contracting, and other efficiency enhancing mechanisms. Hope and Vyas (2017) discuss the severe heterogeneity that exists in private firm financing and the resultant impact on their financial reporting.

These differences make private firms even more interesting from a financial reporting standpoint. Also, private firms face much lesser regulations world over with respect to financial reporting, disclosures, audit and governance and prone to ownership-based agency issues. The use of private firms for pyramiding and internal capital markets within business groups is one such example. More importantly, private firms are more the norm globally and are growing in number and significance with every passing year (Bar-Yosef, et al., 2019). I thus, investigate how private firms differ from public firms with respect to reporting conservatism, focusing on within country variations (Cao and Patel, 2020).

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[1] The International Accounting Standards Board (IASB) is the generator of the International Financial Reporting Standards (IFRS), and the Financial Accounting Standards Boards (FASB) is the generator of the US Generally Accepted Accounting Principles (GAAP).

[2] Refer to https://www.investopedia.com/articles/economics/12/impact-gaap-ifrs-convergence.asp and https://www.pwc.com/gx/en/ifrs-reporting-services/pdf/viewpoint_convergence.pdf, last accessed on 26th December 2023.

[3] For example, if I consider pharma companies world over making R&D investments to find a COVID vaccine, how the pharma company records such R&D spends (whether expenses it or capitalizes it) is UC. However, if a pharma company strikes gold and discovers a vaccine, how the firm's reporting is affected by the news, is CC.

The focus on conservatism and the difference between public and private firms become more significant in an emerging market context where contracting, regulatory, litigation and taxation incentives differ. The popularly studied markets are developed like the US (Xie, 2015), with the last decade seeing some increase in Europe-based research. Lourenço, et al. (2018) document differences under IFRS even among developed countries. Contrary to such developed markets, weaker implementation of regulations, more principal-principal agency issues, and lesser developed debt markets define many emerging markets and may alter the demand for conservatism in reporting. The stark difference in contexts emphasizes the need to focus on the emerging market space.

Within the emerging world, India is a particularly exciting and ideal context for this study. The 5th largest economy in the world by GDP, India is growing at a rate (~7%) faster than the other major economies (like Russia, China, US and UK).[4] India has concentrated ownership, which also brings into focus the role of family firms and business groups, and pyramiding as a key attribute in increasing the concentrated shareholder's control. Moreover, India also underwent two regulatory changes recently. Firstly, relevant to studying public and private firms, India recently adopted a new set of regulations under the Indian Companies Act, 2013[5]. This was applicable to all companies in India, both private and public, from 2014 with one of the primary aims being strengthening investor protection. The Act was soon after amended to excuse private firms from the ambit of the Act (with respect to many provisions)[6]. Minnis and Shroff (2017) discuss in detail how private firms are differently regulated, not just from public firms but also in comparison to private firms across geographies. The regulatory exemption was handed over in a country (India) where private firms are economically significant, account for a large proportion of pyramidal business groups and have also been at the root of many financial investigations, either directly or as key parts of complex web like structures that include public firms[7]. This relaxation in regulations for private firms is a more critical concern in an emerging economy like India characterized by weaker governance, legal enforcement, and investor protection (Narayanaswamy, et al., 2012; Bansal and Garg, 2021).

Secondly, and relevant to a conservatism analysis, India recently converged with the IFRS accounting standards, and the new IFRS-based Indian Accounting Standards (IndAS) replaced the old Indian GAAP (IGAAP). All countries moving to IFRS have had the option to adopt IFRS in entirety or converge with IFRS keeping local contextual differences in mind. Even with full IFRS adoption, Gao and Sidhu (2018) document heterogeneity in impact at the firm and country level. When converging (instead of adopting), this heterogeneity is even more important given Anglo-American origins of IFRS and convergence in Asia-Pacific regions. These geographical differences manifest also in the business and institutional culture and ecosystem.

Therefore, using a large Indian sample of almost 63,000 firm-year observations across more than 15,500 firms (~41% of which are private firms) over 10 years (2011-2020) and covering 74 different industries, I analyze whether private firms differ from public firms with respect to UC in reporting. The results reveal that private firms are less conservative than public firms, while displaying significantly higher debt to equity ratios. The IndAS-based tests demonstrate an increase in UC levels after convergence, contrary to the results documented in extant literature from other geographies. In section 2.2, I discuss the accounting and market-related factors that explain why these counter-

[4] Refer to Forbes articles, available at https://www.forbesindia.com/article/explainers/top-10-largest-economies-in-the-world/86159/1 and https://www.forbesindia.com/article/explainers/gdp-india/85337/1, last accessed on 16th December 2023.
[5] Available at http://www.mca.gov.in/MinistryV2/companiesact2013.html, last accessed on 5th December, 2020.
[6] Such as related party transactions. Refer to https://www.mondaq.com/india/shareholders/506648/exemptions-for-private-limited-companies, last accessed on 5th December 2020.
[7] The recent IL&FS fraud is a prime example (https://economictimes.indiatimes.com/industry/banking/finance/banking/ilfs-fraud-whistleblower-sought-to-uncover-it-in-2017-but-top-brass-covered-it-up/articleshow/69711422.cms?from=mdr). Also see, https://www.businesstoday.in/opinion/columns/indian-economy-why-are-private-companies-prone-to-financial-frauds-corporates-tax-havens/story/411453.html, last accessed on 2nd December 2020.

intuitive results may be expected in India. Given group-affiliation has been documented to be associated with conservatism in extant literature and is a key aspect of the Indian economy, I perform additional tests. I find that business group-affiliation does not affect the association between private firms and UC. I also conduct many robustness tests to ensure accuracy and validity of the results.

This paper contributes to existing knowledge in three ways. One, it extends our understanding of UC in the realm of private firms. Despite the more fundamental nature of UC, Xie (2015, Table 1) and Ruch and Taylor (2015, Footnote 4 and p. 25) highlight the lack of research on UC which makes this exploration more relevant. My results show that private firms are less unconditionally conservative than public firms. This is the first comparative study of public and private firms in the realm of conservatism and comparing the two types of firms throws more light on the information and capital-based incentives of financial reporting.

Two, this extensive private versus public firm study of financial reporting conducted in an emerging market highlights how emerging markets like India differ from the developed world with respect to conservatism and financial reporting. With increasing discussion of converging even the GAAP and IFRS to achieve global standards for comparability across the world, my results highlight how local differences will continue to exist and affect comparability. While a one-size-fits-all attempt in a principles-based framework like IFRS helps increase comparability (Neel, 2017), information users will have to remain cognizant of country-level differences.

Three, the paper is one of the first attempts at exploring how IFRS convergence (as against adoption) has affected reporting attributes like conservatism, especially among private firms, while contrasting them with public firms. I find results contrary to the popular belief that IFRS reduces conservatism, and this can be explained by contextual factors particular to India like pre-IFRS reporting regulations and standards, firm types and reporting behaviour, and capital market dynamics. Ball (2016) discusses in detail how even uniform rules have not led to uniform reporting world over due to the relevance of local contexts. The uniformity is lesser in convergence which may lead to even more divergence in reporting (also see Cao and Patel, 2020). Market characteristics like governance mechanisms, legal enforcement, and investor protection, which are weaker in India, also affect the demand for conservatism. Ipino and Parbonetti (2017), in a cross-country study of mandatory IFRS adoption, document how the enforcement regime affects reporting behaviour. This further emphasizes how reporting choices vary by institutional context.

The rest of the paper is structured as follows. Section 2 discusses the theoretical foundations and lays out the hypotheses. Sections 3 and 4 detail the methodology and analyze the results respectively. Section 5 concludes the paper and states the limitations of the analysis.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

CONDITIONAL (CC) VS UNCONDITIONAL (UC) CONSERVATISM

CC has been at the forefront of conservatism research in the realm of financial reporting, possibly more intriguing for researchers due to its news-based reactive structure and direct impact on market returns. UC, on the other hand, has seen much less interest. I highlight below the broad themes within this sparse but growing literature.

One strand of the conservatism literature studies the relationship between CC (ex-post) and UC (ex-ante) (Beaver and Ryan, 2005; Givoly, et al., 2007; Roychowdhury and Watts, 2007). These papers indicate that UC pre-empts CC, i.e., the level of CC depends on the existing level of UC. This is because UC understates net assets or overstates liabilities already, which reduces the effect of any adverse news in the future. So, the scope for CC is limited in the presence of UC.

Another strand of the literature identifies the motivations for conservative choices[8]. Qiang (2007) documents how litigation and regulation-based benefits may be more easily available to UC firms since it is easier and cheaper to implement and reduces earnings volatility. Tax incentives also drive UC for these reasons and because losses due to CC are often not tax deductible (Kim and Jung, 2007). Qiang (2007) also shows that contracting efficiency requires more CC than UC. Shaw and Whitworth (2022) examine the firm's importance to Big 4 auditors and find greater UC to protect auditor reputation. Liu (2019) study the role of ownership in China and find differential impact on UC and CC levels.

The third strand of literature highlights the costs associated with UC (see Ball and Shivakumar, 2005). UC has been associated with decline in value relevance (Balachandran and Mohanram, 2011), earnings persistence (Chen, et al., 2014), high quality disclosures (Iatridis, 2011) and increase in real earnings management (Penman and Zhang, 2002; Basu and Sen, 2019) and cost of debt (Vander Bauwhede and Gent, 2007). Kim, et al. (2019) find that analysts fail to value the effect of UC which distorts market prices.

Thus, extant literature documents how incentives differ for the two forms of conservatism and how UC can be costly. This highlights the need to understand UC better. More so, given UC pre-empts CC. In this context, I start with a basic question: what types of firms are more unconditionally conservative? I investigate whether private firms differ from public firms, i.e., if ownership type (private versus public) of a firm impacts the level of UC.

PRIVATE FIRMS AND CONSERVATISM

Unlike public firms with publicly traded equity, private firms have privately held equity. These firms are more closely held and generally remain below the regulatory radar. Access to insider corporate information is a defining feature for capital providers to such firms (Van Tendeloo and Vanstraelen, 2008). Ball and Shivakumar (2005) also highlight how private firms' financial statements are not widely distributed and are more likely to be influenced by incentives such as litigation. Public (or listed) firms on the other hand, are more in the public eye. The access to stock markets for capital and so, minority investors at large ensures regulators remain privy of the operations and reporting of a public firm. Despite how economically significant private firms are world over and their higher opacity, private firms remain the beneficiary of regulatory exemptions and continue to largely avoid academic attention (Chen, et al., 2011; Bar-Yosef, et al., 2019).

A key objective of financial reporting is efficient allocation of capital. Since the primary differentiator between public and private firms is how they raise capital, this becomes a natural setting to explore financial reporting choices. The organization type should impact the firm's reporting choices given varying regulatory requirements, sources of capital, types of shareholders, and public scrutiny. On the one hand, public firms face the demand hypothesis, wherein they have greater incentives to disclose more financial information to meet the information needs of investors and creditors and reduce its cost of capital. These firms also face more regulatory requirements that curtail the value and use of private information and demand more disclosures.

On the other hand, public firms are affected by the opportunistic behaviour hypothesis, wherein they face capital market pressures that may encourage manipulative behaviour among owners and/or management. This may be driven by incentives such as meeting earnings benchmarks, smoothing earnings, and maximizing equity-based compensation. Extant literature, based mostly in the US, has found that the opportunistic behaviour hypothesis dominates public firms. Givoly, et al. (2010) test the two alternative hypotheses and find support for the opportunistic behaviour hypothesis with

[8] Many of these papers, however, use aggregate measures that capture both conditional and UC and so make no distinction between the two.

manager's displaying manipulative behaviour. This results in lower financial reporting quality of public firms.

Contrary to public firms, private firms are more debt dependent in their capital structures and so face much lesser capital market pressures. Dinlersoz, et al. (2019) discuss how private firms find it harder to access long-term financing and increase their leverage as they grow. This is due to inaccessibility to longer-term debt financing and equity financing. Also, private firms are more likely to use private channels for communication, implying that their reporting choices would be less responsive to such incentives. Financial constraints and a high cost of debt also act as significant barriers for growth of private firms (Grant Thornton International Business Reports, 2009, 2010) and so raising capital remains a key concern. This disparity in access to capital markets may imply a stronger incentive to behave opportunistically as well as disclose more (see Wang, et al., 2017; Habib, et al., 2018). Many papers have focused on understanding how conservatism varies with the cost and amount of debt (Penalva and Wagenhofer, 2019; Beatty, et al., 2008; Ahmed, et al., 2002; Zhang, 2008).

Hope, et al. (2013) document how financial reporting quality varies between public and private firms with public firms displaying better reporting quality and more conservatism than private firms in the US. Similarly, Ball and Shivakumar (2005) find private firms are less conservative across thirteen European countries. Burgstahler, et al. (2006) also find more earnings management among private firms when replicating the Ball and Shivakumar (2005) study. However, with respect to conservatism, Burgstahler, et al. (2006) find mixed results with private firms being more conservative in some countries, and less conservative in some others. They, however, conclude that public and private firms respond differently to incentives (also see Hope and Vyas, 2017).

Contrary to these results, Penno and Simon (1986), studying a much smaller sample of US firms, find financial reporting quality is higher for private firms. Haw, et al. (2014) document how debt financial objectives drive private firms in Korea to be conservative. The paper, however, studies only CC. The extant literature has thus largely focused on earnings management and CC within the realm of earnings quality, ignoring the more pervasive UC.

More importantly, Hope, et al. (2013) argue that the European setting is different from that of the US and reporting choices and behaviour would therefore vary. A similar argument can be drawn for emerging markets like India (Chen, et al., 2011), where not only are regulations and litigation risk very different, but the context varies drastically given concentrated ownership and a large role of business groups and family firms, more private firms within complex pyramidal shareholding structures, greater use of related party transactions and inter/intra group funding, more owner-owner agency issues than owner-management problems, and a less developed public debt market (and a resultant dependence on bank and corporate lending).

Thus, on the one hand, private firms a) have more debt and need to cater to information and quality demands of debt providers, b) face lesser equity capital market pressure and lesser incentives for manipulation. On the other hand, CC may be more useful for debt financing (Peek, et al., 2010), reducing the demand for UC which is the focus of this paper. Moreover, the presence of concentrated ownership and type two agency problems might incentivize lesser conservatism since an outcome of lesser UC is also higher profits and so, higher dividends. This is pertinent in contexts like India where private firms are entrenched within family firm and business group structures and dividends are a common way to enhance internal capital markets. This works differently in the US where agency issues are primarily owner-manager.

Additionally, among different sources of debt used by private firms (Hope and Vyas, 2017), India has more bank and corporate lending (private debt) than capital access from the public debt market. The literature on conservatism and debt has documented the role of only the latter, i.e., public debt in demanding more conservatism, not the former. Also, UC incentives such as reducing regulatory

and litigation risks play a lesser role in India like emerging markets where such risks remain low due to weaker implementation of laws. This is more so for private firms that already enjoy lesser regulatory burden. I thus expect private firms in my sample to display lesser conservatism (poorer reporting quality) than public firms, for whom demands of higher conservatism and better reporting quality (from multiple stakeholders like regulators and capital market participants) continue to exist even in India. This expectation is in line with the results documented in Chen, et al. (2011) with respect to earnings management among private firms in emerging markets.

H1: Private firms are less unconditionally conservative than public firms.

IFRS CONVERGENCE AND CONSERVATISM

A recent regulatory change that has direct impact on conservatism in reporting is the worldwide convergence with the IFRS accounting standards. The IFRS were created with the objective of unifying financial reporting across the world using a single set of principle-based accounting standards. Newer accounting standards have been gradually reducing the level of conservatism to reduce information asymmetry that arises from understatement bias and so distortion of accounting data (Lu and Trabelsi, 2013; Hellman, 2008). The IASB had dropped prudence from the conceptual framework in 2010 but a long debate about the need and relevance for prudence led to its reintroduction five years later in 2015 (Cooper, 2015). This debate around IASB's stance on prudence also led to several review papers (Xie, 2015; Ruch and Taylor, 2015; Mora and Walker, 2015) on the costs and benefits of conservatism.

The IASB based its stance on two arguments: one, prudence in reporting was in conflict with neutrality since it led to bias in reporting, and two, understating assets (or overstating liabilities) in one period often leads to overstating financial performance in later years, which anyway is not prudent. These arguments led to IASB trying to eliminate the unconditional form of conservatism (and not CC), which is the focus of this paper. IFRS-based accounting standards have been discussed to be more prone to reducing conservatism bias and this has also been documented for public firms in some developed markets (see Lai, et al., 2013).

André, et al. (2015), in a study of the impact of IFRS adoption on CC in Europe, argue that IFRS are conceptually conditionally conservative but find that inappropriate application of the CC principles has resulted in lower CC than desired by IASB. Cao and Patel (2020) also find some impact of IFRS on reducing CC in China. Since the two forms of conservatism are negatively related with UC pre-empting CC (see Beaver and Ryan, 2005), enhancing CC would imply lesser focus on UC. Hellman (2008) highlights how UC is not seen as effective reporting and the attempt by IASB is to improve the framework by excluding UC from the list of desirable quality of reporting. Empirically studying the implementation of certain standards (concerning loss carryforwards, development costs and construction contracts), Hellman (2008) concludes how the IFRS' focus on CC, over UC, may make reporting less relevant. The IFRS also continue to include aspects that require application of CC such as the lower of cost or net realizable value for inventories.[9] Thus, the new IFRS standards are expected to be less conservative (Gwilliam and Jackson, 2008; Magnan, 2009).

Despite IFRS adoption in more than 140 countries and for all firms within each jurisdiction (in some cases voluntarily), the literature on reporting still remains restricted to studying developed markets (particularly in Europe). Most work focuses on IFRS adoption and its effect on cost of capital, comparability, and value relevance, which are all reporting outcomes and not reporting choices

[9] In moving away from aspects like historical cost to fair value accounting, the IFRS are less conservative as well, but this aspect mostly affects financial firms and not other industries. Moreover, fair value can entail both unrealized gains and unrealized losses indicating it cannot be considered less conditionally conservative than amortized cost. Refer to IAS 16, 39 and 40.

(as conservatism is). Thus, the literature largely ignores the effect of convergence on reporting choices like conservatism in financial reporting in different markets and across different firm types. This is relevant since the impact of IFRS has already been documented to be different based on a) adoption versus convergence, and b) fundamental characteristics of the market and firms under study.

Hung and Subramanyam (2007) state that IFRS adoption is expected to have a particularly profound effect in stakeholder-oriented countries (such as India) since the standards are heavily influenced by the shareholder oriented Anglo-Saxon accounting model. This is different from many European countries where local standards have a greater contracting orientation and are driven by considerations of tax book conformity. Guermazi and Halioui (2020) document how national culture also impacts outcomes of IFRS adoption.

Cao and Patel (2020) study IFRS convergence in China and find the national institutional environment impacts reporting outcomes post IFRS convergence and firms within the same country behave differently. This highlights the limitations associated with cross-country studies (such as Viana, et al., 2023), indicates that prior findings are not generalizable and emphasizes the need for single country studies[10]. After Benson, et al. (2015) highlighted how emerging markets have received less attention, recent IFRS research has seen a focus on single country emerging market analyses, with one common finding – that every context is different (Cao and Patel, 2020 and Yang, et al., 2018 in China; Nakao and Gray, 2018 in Brazil; Al-Htaybat, 2018 in Jordan; Che Azmi and English, 2016 in Malaysia).

Is India different from the markets studied earlier? Should I expect anything different from the reduction in conservatism already documented? India is a novel context with respect to conservatism given India's convergence to (instead of adoption of) IFRS. A comparison of the old (IGAAP) and new (IndAS) accounting standards in India reveal the following differences (see Saraf, 2018). First, some accounting choices that impact UC, for example the LIFO method for inventory costing under inflationary prices, were already disallowed in India and this limits the scope for conservatism and also its reduction post-OFRS convergence. Secondly, the common accounting choices made by firms in India do not differ much under the two regimes. For example, firms continue to use straight line method for depreciation and carry assets and liabilities at amortized costs. This also limits opportunities for reduction in conservatism. Thirdly, major changes due to IndAS are seen because of fair value measurement of investments and for most companies, this means an increase in conservatism since the IFRS rules are more conservative and this has had a downward impact on profits. Finally, in India's convergence to IFRS, IndAS 101 which dealt with first time adoption of the new standards provided certain exceptions to first time adopters, limiting reduction. Thus, taken collectively, IFRS convergence creates much lesser scope for reduction of UC in India and may instead, increase conservatism due to fair value changes. Moreover, IFRS has also been documented to reduce CC (Piot, et al., 2011) and UC may be used as a substitute. This may increase UC.

The extant literature remains inconsistent with some documenting a decline in conservatism post-IFRS, and some documenting an increase. André, et al. (2015) study CC and document how the level of conservatism declines after IFRS adoption across sixteen European countries, but this is less pronounced in countries with better audit and reporting compliance. Elshandidy and Hassanein (2014) and Fullana, et al. (2019) study UC post mandatory IFRS adoption in UK and Spain respectively and find similar results. Barth, et al. (2008) find a positive effect of IFRS adoption on accounting quality across 21 countries. Piot, et al. (2015) document an increase in UC across 22 EU countries. Goodwin and Ahmed (2006) also find more conservative bias under IFRS among Australian firms. This confirms the possibility of different outcomes in different economies and begets asking how firms in India have responded post-IFRS convergence.

[10] Majority of IFRS-based prior studies have used a cross-country approach (Cao and Patel, 2020; Benson, et al., 2015; Linnenluecke, et al., 2017; Daske, et al., 2013).

Bansal and Garg (2021) in a recent study of IFRS convergence in India, find accounting quality (defined by smoothing, discretionary accruals, earnings timeliness, and value relevance of earnings) reduced post IFRS and so document how the reporting outcomes may be different in India. I extend this literature by focusing on conservatism, an attribute that pre-empts such reporting outcomes and may thus, also help explain the variations in outcome. With respect to India, I hypothesize that

H2: Convergence with IFRS-based accounting standards increases unconditional conservatism.

IFRS CONVERGENCE, CONSERVATISM AND PUBLIC VS PRIVATE FIRMS

Bassemir (2018) discusses the incentives private firms have to adopt IFRS. Bigelli, et al. (2014) and Haw, et al. (2014) identify various incentives, such as debt financing, for private firms to become more conservative. Cameran, et al. (2014) identify the use of IFRS reporting as a signaling strategy by private firms. Many others have documented the benefits private firms reap from conservative reporting. Allee, et al. (2023) document how increase in comparability of private firms' financials post-IFRS adoption has increased cross-border investments in private firms. Bertrand, et al. (2021), studying European firms, shows how IFRS helps reduce opacity and raise more private debt, which is a major source of financing for private firms. Moreover, increasing comparability due to converging standards may increase litigation risk for private firms that have traditionally been less regulated. This may also increase the demand for conservatism at such firms. Liu, et al. (2023) find IFRS adoption by public firms' crowds out private firm capital investments and so, higher financial constraints should incentivize private firms to improve reporting quality. Thus, differential impact on financing and agency dynamics of public and private firms in the aftermath of IFRS should also result in different choices with respect to accounting conservatism.

Given the above incentives, I expect conservatism to increase more for private firms post-IFRS. Moreover, according to hypotheses 1 and 2, private firms are less unconditionally conservative than public firms pre-IFRS and conservatism increases after the change in standards. The convergence to similar accounting standards for both public and private firms would also imply a) public firms are already more conservative indicating lesser scope for increase in UC, and b) private firms are already less conservative indicating possibly greater increase in conservatism post-IFRS convergence due to a low base effect. Thus, the conservatism gap between private and public firms should reduce post-IFRS, so I hypothesize that

H3: Convergence with IFRS-based accounting standards reduces the difference in unconditional conservatism between private and public firms.

METHODOLOGY

DATA AND SAMPLE

I first procured data on all firms, public and private, covered by the Centre for Monitoring the Indian Economy (CMIE) database Prowess. Prowess is the most comprehensive database of financial information about Indian companies. It is also the largest data source available in terms of coverage. It has been extensively used in previous studies like Gopalan, et al. (2007). The primary source of data for the Prowess database is the annual reports of companies.

After data cleaning, the final sample comprises 63,151 firm-years across 10 years (2011-2020),

74 industries and 15,565 firms (~41% of which are private firms). This sample reduces to 41,646 observations when I include the governance variables for the full model. All continuous variables were winsorized at the top and bottom 1%.

RESEARCH DESIGN

KEY VARIABLES

1. **Unconditional Conservatism:** *con_acc* is calculated using the lagged accruals measure. Developed by Ahmed and Duellman (2007), this measure is the most popular in the UC literature, including use in recent literature such as Liu (2019) and Ahmed, et al. (2023). It is measured as lag of -1*****(net income before extraordinary items + depreciation – cash flow from operations). The lagged accruals value is then deflated by average total assets. To mitigate the effect of any large temporary accruals, the measure is also averaged over three years (centered around t, i.e., t-1, t and t+1). While this is my primary measure of UC, I also use the skewness measure for robustness. This is discussed later, in section 4.2.
2. ***Private Firms:*** *private* is an indicator variable that takes the value 1 for a private firm, zero otherwise.
3. ***Indian Accounting Standards:*** *indas* is an indicator variable that takes the value 1 if the financial statements were prepared using the new IFRS-based accounting standards, zero otherwise.[11]

OTHER VARIABLES

- *age:* measured as number of years since incorporation
- *size*: measured as natural log of total assets
- *lev:* leverage measured as $total\_debt_t$ / $total\_asset_t$
- *sgrowth:* sales growth measured as $[(net\_sales_t - net\_sales_{t-1}) / net\_sales_{t-1}]$
- *aud_fee:* audit quality proxy measured as audit fees as a percentage of *net_sales*
- *bod_size:* governance proxy, i.e., board size measured as the count of the number of directors on the board
- *pct_ind_dirs:* governance proxy, i.e., board independence measured as the number of independent directors on the board divided by total number of directors on the board
- *bg:* group-affiliation measured as an indicator variable that takes the value of 1 if the firm is affiliated with a business group, zero otherwise

MODEL

To test whether private firms are more unconditionally conservative than public firms, I run the following model:

$$con\_acc = \alpha + \beta_1 * private + controls + fixed\ effects \quad (1)$$

Based on hypothesis 1, β_1 is expected to be negative, i.e., private firms are expected to be less unconditionally conservative than public firms. Based on prior literature, I control for the following firm level variables, the expected signs of which are also mentioned in parentheses: age (*age*, positive),

[11] All companies were allowed a few years to adopt the new standards, and some even adopted them voluntarily. Thus, the indicator variable is captured based on the standards used to prepare them instead of a more generic year-based cut-off.

size (*size*, negative), leverage (*lev*, positive), growth (*sgrowth*, negative), audit quality (*aud_fee*, positive), board size (*bod_size*, positive), board independence (*pct_ind_dirs*, positive), and group-affiliation (*bg*, positive). All the variables and their expected signs are presented in Table I. The regression is run with industry and year fixed effect and robust standard errors have been calculated.

Table 1. Definition of Variables and Expected Signs

Variable	Description	Expected Sign
con_acc	*measure of lagged accruals; measured as lag of [-1*(net income before extraordinary items + depreciation – cash flow from operations), deflated by average total assets and averaged over three years (centered around t, i.e., t-1, t and t+1)]; Ahmed and Duellman (2007)*	
private	*indicator variable that takes the value 1 for a private firm, zero otherwise*	*Negative*
indas	*indicator variable that takes the value 1 if the financial statements were prepared using the new IFRS-based accounting standards, zero otherwise*	*Negative*
age	*number of years since incorporation; financial year less year of incorporation*	*Positive*
aud_fee	*audit quality; audit fees divided by net_sales*	*Positive*
bg	*indicator variable that takes the value 1 if the firm is affiliated to a business group, zero otherwise*	*Positive*
bod_size	*board size; count of the number of directors on the board*	*Negative*
lev	*leverage; total debt divided by total assets*	*Positive*
pct_ind_dirs	*board independence; number of independent directors divided by board size*	*Positive*
sgrowth	*sales growth; measured as [(net_sales$_t$ – net_sales$_{t-1}$) / net_sales$_{t-1}$]*	*Negative*
size	*natural log of total assets*	*Negative*

For hypothesis 2, I run equation 1 by replacing *private* with *indas*, the variable of interest, as follows:

$$con\_acc = \alpha + \beta_1 * indas + controls + fixed\ effects \quad (2)$$

This is to examine if UC increases post convergence with IFRS-based accounting standards. The expected sign for β_1 is positive.

To examine the moderating effect of *indas* on private firm behaviour with respect to *con_acc* in hypothesis 3, I run the following model:

$$con\_acc = \alpha + \beta_1 * private + \beta_2 * indas + \beta_3 * private * indas + controls + fixed\ effects \quad (3)$$

The key coefficient of interest here is β_3 which is the coefficient of the interaction term that captures the moderating effect. It is expected to be positive, i.e., the new accounting standards increase conservatism for private firms more than public firms and so, reduce the difference in conservatism levels between private and public firms. Equation 3 is otherwise similar to equation 1 and uses the same controls and fixed effects.

RESULTS AND ANALYSIS

MAIN RESULTS

Table II presents the descriptive statistics. Panel A presents the statistics for the full sample, Panel B for private firms and Panel C for public firms. I find that private firms have a much lower mean and median for *con_acc*, despite similar range. Private firm-years (*private*) account for about 24% of the sample and 29% firm-years have reported using the new standards (*indas*). As often seen in extant literature, private firms are smaller, younger and display higher growth. They also have smaller boards and lesser board independence.

Table 2. Sample Descriptive Statistics

	All Firms			Private Firms			Public Firms		
Variables	**N**	**Mean**	**Median**	**N**	**Mean**	**Median**	**N**	**Mean**	**Median**
con_acc	*41,646*	*0.003*	*0.004*	*9,995*	*-0.003*	*0.000*	*31,651*	*0.005*	*0.005*
private	*41,646*	*0.240*	*0.000*	*9,995*	*1.000*	*1.000*	*31,651*	*0.000*	*0.000*
indas	*41,646*	*0.287*	*0.000*	*9,995*	*0.204*	*0.000*	*31,651*	*0.313*	*0.000*
sgrowth	*41,646*	*-7.132*	*0.062*	*9,995*	*7.706*	*0.082*	*31,651*	*-11.818*	*0.057*
size	*41,646*	*7.626*	*7.512*	*9,995*	*7.226*	*7.212*	*31,651*	*7.753*	*7.634*
age	*41,646*	*26.694*	*23.000*	*9,995*	*18.229*	*15.000*	*31,651*	*29.367*	*25.000*
lev	*41,646*	*0.501*	*0.331*	*9,995*	*0.434*	*0.345*	*31,651*	*0.522*	*0.327*
aud_fee	*41,646*	*-0.038*	*0.000*	*9,995*	*-0.040*	*0.000*	*31,651*	*-0.038*	*0.000*
bod_size	*41,646*	*1.908*	*1.946*	*9,995*	*1.467*	*1.386*	*31,651*	*2.047*	*2.079*
pct_ind_dirs	*41,646*	*0.257*	*0.286*	*9,995*	*0.049*	*0.000*	*31,651*	*0.323*	*0.375*
bg	*41,646*	*0.317*	*0.000*	*9,995*	*0.172*	*0.000*	*31,651*	*0.363*	*0.000*

Note: In column 1, the full sample has been used; in column 2, only private firms, i.e., *private=1* while in column 3, public firms, i.e., *private*= 0.

Table III presents the correlation coefficients and in line with expectations, reveals a negative correlation between *con_acc* and *private* and a positive correlation between *con_acc* and *indas*. I also find significant differences in the same direction in univariate t-tests conducted for private versus public firms (unreported). I also test for multicollinearity using the VIF test. All VIF scores are found to be much below 10 indicating no multicollinearity issues. The VIF scores have also been presented in Table III.

Table IV presents the regression results. I first, run the model only with the primary independent variable. I then add the firm's fundamental characteristics such as age and size to see how firm characteristics influence the primary association. I then add governance controls based on extant literature that identifies a firm's governance aspects as factors affecting the firm's reporting choices (Garcia Lara, et al., 2009; Caskey and Laux, 2017).

Column 1a is the base model for hypothesis 1, with only *private* as the explanatory variable. I find a negative coefficient of -0.006, significant at 1% level of significance. Columns 1b and 1c present the full model (equation 1) with all control variables (including governance controls in Column 1c) and fixed effects. The coefficient for β_1 continues to be negative at -0.01, significant at 1% in both columns. This implies that private firms display lesser unconditional conservatism than public firms. The control variables also depict the expected signs (see Table I). A different association is found only with respect to board size which may be explained by the diminishing returns to increasing board size, as

documented in literature. While increasing board size increases benefits from diversity in thought and decision-making, too many directors add costs by delaying decision-making, akin to too many cooks spoiling the broth. This creates a U-shaped association between board size and firm value (Coles, et al., 2008). The U-shape is empirically tested using a quadratic model when board size is a key explanatory variable. However, in line with literature that uses board size as a control variable, I refrain from complicating the model further and limit it to a linear framework.

Columns 2a, 2b and 2c display the base and full models for hypothesis 2 using *indas* as the key explanatory variable. In all the three columns, β_1 is significantly positive. This implies that reporting conservatism has increased post IFRS convergence in India. This is contrary to most results documented in extant literature but is as expected from the Indian context, as detailed in section 2.2 with respect to the existing standards and other contextual aspects affecting reporting incentives. The increase in fair value losses and comparability will drive conservatism up while the general expectations of decreasing conservatism due to IFRS standards are not as significant in India. Column 2b (2c) reveals a coefficient of 0.019 (0.013), significant at 1% after controlling for additional variables and including fixed effects indicating that the positive association is robust.

The result for hypothesis 3, using equation 2, is presented in Columns 3a and 3b. The main coefficient of interest is β_3. As seen above, β_1 (*private*) and β_2 (*indas*) are still negative and positive respectively. As with hypothesis 1 and 2, this shows that private firms are less conservative (β_1) and after IFRS convergence, conservatism has increased (β_2). As hypothesized (H3), the interaction term β_3 is found to be positive indicating that post the new accounting standards, private firms are more conservative than before. IndAS has reduced the conservatism gap that existed between private and public firms, i.e., convergence with the new standards moderates the level of conservatism.

Table 3. Correlation Coefficients and VIF

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	VIF
(1) con_acc	*1*											
(2) private	*-0.033 ****	*1*										*2.00*
(3) indas	*0.061 ****	*-0.103 ****	*1*									*2.46*
(4) sales_growth	*-0.006*	*0.006*	*-0.010 **	*1*								*1.00*
(5) size	*-0.040 ****	*-0.120 ****	*0.233 ****	*-0.013 ***	*1*							*1.56*
(6) age	*0.046 ****	*-0.255 ****	*0.081 ****	*0.005*	*0.086 ****	*1*						*1.24*
(7) lev_ta	*0.075 ****	*-0.009 **	*-0.007*	*-0.0001*	*-0.068 ****	*-0.007*	*1*					*1.01*
(8) aud_fee_pct	*0.053 ****	*-0.002*	*0.012 ***	*-0.0003*	*-0.047 ****	*0.023 ****	*-0.012 ***	*1*				*1.04*
(9) bod_size	*-0.008 **	*-0.454 ****	*0.236 ****	*-0.010 **	*0.467 ****	*0.272 ****	*-0.023 ****	*-0.017 ****	*1*			*1.95*
(10) pct_ind_dirs	*0.010 ***	*-0.523 ****	*0.104 ****	*0.0005*	*0.128 ****	*0.273 ****	*-0.008 **	*0.007*	*0.499 ****	*1*		*1.74*
(11) bg	*0.077 ****	*-0.174 ****	*0.168 ****	*0.002*	*0.267 ****	*0.139 ****	*0.015 ****	*-0.024 ****	*0.165 ****	*0.138 ****	*1*	*1.21*

Table 4. Regression Results

Variable	(1a)	(1b)	(1c)	(2a)	(2b)	(2c)	(3a)	(3b)
	Dependent = *con_acc*							
Constant	0.0045 ***	0.0057	0.0083	-0.0016 **	0.0105 *	0.0088	-0.0345 ***	0.0139 *
	(9.63)	(1.20)	-1.43	(-3.27)	(2.15)	-1.51	(-4.98)	-2.36
private	-0.0064 ***	-0.0105 ***	-0.0098 ***				-0.0095 ***	-0.0108 ***
	(-7.27)	(-11.04)	(-6.79)				(-8.20)	(-6.66)
indas				0.0150 ***	0.0191 ***	0.0133 ***	0.0144 ***	0.0098 ***
				(17.62)	(16.12)	-8.82	(10.45)	-5.86
private*indas							0.0083 ***	0.0097 ***
							(3.97)	-3.55
sgrowth		-0.0000 (-0.32)	0 (-0.45)		-0.0000 (-0.26)	0 (-0.42)	-0.0000 (-0.26)	0 (-0.41)
size		-0.0034 ***	-0.0035 ***		-0.0042 ***	-0.0040 ***	-0.0042 ***	-0.0038 ***
		(-12.29)	(-9.46)		(-14.28)	(-10.89)	(-14.47)	(-10.25)
age		0.0002 ***	0.0002 ***		0.0002 ***	0.0002 ***	0.0002 ***	0.0002 ***
		(7.80)	-6.9		(9.41)	-7.63	(7.71)	-7.17
lev		0.0022 *	0.0016 *		0.0022 *	0.0016 *	0.0021 *	0.0015 *
		(2.39)	-2.13		(2.39)	-2.13	(2.39)	-2.12
aud_fee		0.0043 ***	0.0052 ***		0.0041 ***	0.0050 ***	0.0041 ***	0.0050 ***
		(3.52)	-4.84		(3.49)	-4.76	(3.49)	-4.72
bod_size			-0.0044 ***			-0.0033 **		-0.0051 ***
			(-3.40)			(-2.62)		(-3.95)
pct_ind_dirs			0.0060 *			0.0091 **		0.0041
			-1.98			-3.16		-1.36
bg			0.0195 ***			0.0184 ***		0.0179 ***
			-17.07			-16.03		-15.58
Industry Fixed Effects	No	Yes	Yes	No	Yes	Yes	Yes	Yes
Year Fixed Effects	No	Yes	Yes	No	Yes	Yes	Yes	Yes
N	63,151	63,151	41,646	63,151	63,151	41,646	63,151	41,646
Adj. R-squared	0.001	0.049	0.058	0.005	0.051	0.059	0.052	0.06

Note: The sample here is the full sample in every column. Columns 1, 2 and 3 in this table examine whether private firms are less unconditionally conservative (hypothesis 2). Column 2 includes basic firm characteristics as control variables. Column 3 further adds corporate governance related control variables. Similarly, Columns 4, 5 and 6 replace *private* with *indas* to test hypothesis 2, i.e., whether convergence with international accounting standards has reduced unconditional conservatism. Columns 7 and 8 tests hypothesis 3 to examine if the new accounting standards moderate the association between *private* and *con_acc*. All columns except 1 and 4 include industry and year fixed effects. For all models, robust standard errors were calculated. The t-statistics are presented below the coefficients; ***, ** and * indicate that the coefficient is significant at the 1 percent, 5 percent, and 10 percent level, respectively. The total observations and adjusted R-squares are reported.

ADDITIONAL AND ROBUSTNESS TESTS

Given the overarching presence of business groups in emerging markets like India, I also analyse whether group-affiliation moderates the association between private firms and UC. Business groups have both public and private firms, with private firms being critical to pyramiding of ownership since these firms require less disclosures and receive lesser public scrutiny and attention. They are also less regulated. Extant literature documents a significant association between ownership structure and conservatism (see Chi, et al., 2009; Song, 2015). In unreported additional analysis, I run equation 1 replacing *private* with *bg* (an indicator variable that takes the value 1 for group-affiliated firms, and zero otherwise) and find a significantly positive association between *bg* and *con_acc*. This indicates group-affiliated firms are more unconditionally conservative, which is in line with prior literature that documents the need to be conservative to reduce cost of equity and cater to investor demands (including higher dividends to concentrated owners). Then I include *private*, *bg* and the interaction between *private* and *bg*. However, I find no moderating effect of group-affiliation on the association between *private* and *con_acc*. This implies that the incentive for conservative reporting may exist only at the (public) group affiliates that raise public capital. These firms are a smaller proportion of group affiliates. The larger proportion are private firms and here, given the absence of public shareholding, accounting conservatism is lower. Since group affiliation leads to different incentives, I then use the variable as a control in the main results.

I also do some additional tests for robustness. First, I use another proxy for UC based on skewness (see Ahmed and Duellman, 2013). Since the measurement of skewness is based on five years of data for every firm-year, it reduces the sample size drastically and so some tests cannot be run based on fixed effects. This is a severe limitation but in the absence of any other measures of UC in the literature, I run equation 1 with the skewness measure where possible and find a significantly negative β_1. I also run the tests while controlling for a measure of CC (C-score), and though the results are somewhat weaker, they continue to be significant. I also conduct *indas*-based sub-sample tests and the results continue to hold. Since some part of financial year 2020 has been an anomaly because of the COVID19 pandemic, I rerun all models without data from 2020. The results continue to hold and have similar magnitude.

In line with extant literature and given the fair value differences that may arise, I also run the tests with a smaller sample of non-financial firms (industry codes 64, 65, and 66 which account for less than 10% of the sample). The results continue to be similar in direction, magnitude, and significance. I thus present the results for the larger sample of all firms.

CONCLUSION

In this study, I examine how private and public firms vary with respect to UC in financial reporting. More importantly, I analyse how regulatory changes, particularly convergence with international accounting standards impacts UC and alters the public-private heterogeneity in reporting. Using a large Indian sample of more than 63,000 firm-years across 10 years, 74 industries and 15,565 private and public firms, my results document that private firms are less conservative than public firms. These results hold even after controlling for governance attributes.

Also, contrary to expectations from prior literature, convergence with IFRS-based accounting standards has increased UC in the context under study. This has also reduced the public-private heterogeneity with respect to reporting conservatism. The results from the paper have implications not just for emerging markets (particularly those converging to newer standards) but also for private firms and users of financial statements world over.

This paper contributes primarily in understanding the impact of regulatory changes in reporting and enhancing the extant understanding of UC, more so in the realm of private firms (as against public firms) in an emerging economy. This entails turning four dials at one time. One, despite pre-empting conditional conservatism and being more pervasive, UC is far less researched. Two, most research on conservatism has focused on public firms, despite private firms being less regulated and a large block of the global economy. Three, while adoption of newer accounting standards has been widely studied, much less is known about the impact of convergence where the local context and accounting priors remain relevant. Research on IFRS adoption of private firms has also been sparse though. Four, almost all research has focused on developed markets where the nuances associated with raising capital (particularly debt), litigation, regulations, and tax vary widely. If convergence makes the local context important, then focusing on emerging markets becomes significant as well.

This study however is subject to certain limitations. First, these results may not be generalizable to all countries, and will hold more relevance in Asian economies where accounting regulations, institutions and corporation forms are similar to the Indian context. Second, while I do many robustness tests, my analysis is limited by the lack of adequate UC proxies in literature and a longer timeline since IFRS convergence. Also, since I study private firms, there is no market-related data available and so measures of conditional conservatism cannot be compared for robustness. The limited availability of data given the focus on private firms also limits the use of more firm-level controls like shareholding pattern and other governance variables.

Despite these caveats, this study is an important step towards understanding a) UC, which remains more prevalent in a post-IFRS world than its conditional peer, and b) the accounting information environment in emerging markets and the regulatory changes in it. These results have implications for users of financial statements like private firm investors and analysts since it provides an understanding of the kind of bias expected in firm reporting. They also inform policy related to accounting standards, disclosures, governance and investor protection in the realm of private firms since the results help understand how private firms report differently from the more regulated public firms. The results are also relevant to the larger debate surrounding the need to increase global convergence and comparability in reporting and questions the ability of principles-based standards in standardizing financial reporting across varying contexts.

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APPENDICES

A1. SAMPLE SELECTION

Criteria	Firm-years
Initial sample	357,928
Net sales or Total assets <0 or missing	176,820
	181,108
Incorporation year (age) missing	1,114
Variables for conservatism measure (con_acc) missing	91,251
Debt (lev) missing	14,847
Audit fee missing	10,745
	63,151
Governance (Board of Directors and Shareholding) data missing	21,505
	41,646

A2. INDUSTRY MEMBERSHIP OF SAMPLE

NIC Code	Industry	Frequency	%	Cumulative %
1	Crop and animal production, hunting and related service activities	734	1.16	1.16
2	Forestry and logging	68	0.11	1.27
5	Mining of coal and lignite	83	0.13	1.4
6	Extraction of crude petroleum and natural gas	50	0.08	1.48
7	Mining of metal ores	110	0	1.65
8	Other Mining and quarrying	346	0.55	2.2
10	Manufacture of food products	2,411	3.82	6.02
11	Manufacture of beverages	552	1	6.89
12	Manufacture of tobacco products	82	0.13	7.02
13	Manufacture of textiles	2,703	4.28	11.3
14	Manufacture of wearing apparel	598	0.95	12.25
15	Manufacture of leather and related products	178	0.28	12.53
16	Manufacture of woodland products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	134	0.21	12.75
17	Manufacture of paper and paper products	792	1.25	14
18	Printing and reproduction of recorded media (This excludes publishing activities, see section J for publishing activities	70	0	14.11
19	Manufacture of coke and refined petroleum products	300	0	14.59
20	Manufacture of chemicals and chemical products	3,692	6	20.43
21	Manufacture of pharmaceuticals, medicinal chemical and botanical products	1,838	3	23.34
22	Manufacture of rubber and plastics products	1,968	3	26.46
23	Manufacture of other non-metallic mineral products	1,131	2	28.25

NIC Code	Industry	Frequency	%	Cumulative %
24	Manufacture of Basic Metals	3,598	5.7	33.95
25	Manufacture of fabricated metal	1,111	2	35.71
26	Manufacture of computer, electronic and optical products.	879	1	37.1
27	Manufacture of electrical equipment	1,622	3	39.67
28	Manufacture of machinery and equipment n.e.c.	2,061	3.26	42.93
29	Manufacture of motor vehicles, trailers and semi-trailers	2,038	3.23	46.16
30	Manufacture of other transport equipment	288	0.46	46.61
31	Manufacture of furniture	26	0	46.65
32	Other manufacturing	719	1	47.79
34	Metal Products and Parts, except Machinery and Equipment	1,125	1.78	49.57
35	Electricity, Gas, Steam and Air Condition Supply	1,885	2.98	52.56
36	Water collection , treatment and supply	13	0	52.58
37	Sewerage	8	0	52.59
41	Construction of buildings	2,307	3.65	56.25
42	Civil engineering	1,993	3.16	59.4
43	Specialized construction activities	117	0	59.59
45	Wholesale and retail trade and repair of motor vehicle and motorcycles	516	1	60.4
46	Wholesale trade except of motor vehicles and motorcycles	6,765	10.71	71.12
47	Retail Trade Except of Motor Vehicles and motorcycles	1,046	1.66	72.77
49	Land transport and transport via pipelines	386	0.61	73.38
50	Water transport	253	0	73.79
51	Air transport	157	0.25	74.03
52	Warehousing and support activities for transportation	1,651	3	76.65
53	Postal and courier activities	31	0.05	76.7
55	Accommodation	1,193	1.89	78.59
56	Food and beverage service activities	17	0.03	78.61
58	Publishing activities	265	0.42	79.03
59	Motion picture, video and television program production, sound recording and music publishing activities.	342	0.54	79.57
60	Programming and broadcasting activities	230	0	79.94
61	Telecommunications	630	1	80.94
62	Computer programming, consultancy and related activities	1,285	2.03	82.97
63	Information service activities	453	0.72	83.69
64	Financial service activities, except insurance and Pension funding	4,887	7.74	91.43

NIC Code	Industry	Frequency	%	Cumulative %
65	Insurance, reinsurance and pension funding, except compulsory social security	5	0.01	91.43
66	Other financial activities	726	1.15	92.58
68	Real estate activities	15	0.02	92.61
69	Legal and accounting activities	6	0.01	92.62
70	Activities of head offices; management consultancy activities	524	1	93.45
71	Architecture and engineering activities; technical testing and analysis	453	0.72	94.16
72	Scientific research and development	150	0.24	94.4
73	Advertising and market research	200	0.32	94.72
74	Other professional, scientific and technical activities	2	0	94.72
77	Rental and leasing activities	1,437	2.28	97
78	Employment activities	97	0.15	97.15
79	Travel agency, tour operator and other reservation service activities	120	0.19	97.34
80	Security and investigation activities	62	0.1	97.44
82	Office administrative, office support and other business support activities	232	0.37	97.81
84	Public administration and defense; compulsory social security	73	0.12	97.92
85	Education	263	0.42	98.34
86	Human health activities	781	1	99.58
93	Sports activities and amusement and recreation activities	107	0.17	99.75
94	Activities of membership organizations	27	0.04	99.79
95	Repair of computers and personal and household goods	124	0.2	99.98
96	Other personal service activities	10	0.02	100
	Total	**63,151**	**100**	

***Source:** Author's sample estimates and refer to National Industrial Classification 2008 by Central Statistical Organization, Government of India, available at https://www.ncs.gov.in/Documents/NIC_Sector.pdf, last accessed on 30th November 2023.