Firm Value and Mandatory Risk Disclosure : An Empirical Investigation of Listed Companies Under Ind-AS107 in India

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Abstract

Purpose : The purpose of this study was to investigate the relationship between mandatory risk disclosure practices and firm value in Indian-listed non-financial companies, considering the implementation of Ind-AS 107. The study aimed to analyze the impact of required risk disclosures on the valuation of the Indian listed firms and contribute to the understanding of risk reporting practices in the Indian context.

Methodology : The study employed a panel data regression analysis using a fixed effect model. Data were collected from the NIFTY500 Index for the period from 2018–2022. A mandatory risk disclosure index was developed to assess the level of risk-related information provided by companies as per Ind-AS 107.

Findings : The results indicated a significant positive relationship between mandatory risk disclosure practices and firm value in Indian-listed non-financial companies. The study revealed that companies with higher levels of mandatory risk disclosures tend to have higher valuations. Additionally, firm size was positively associated with firm value, while firm risk (leverage) was negatively correlated with valuation.

Practical Implications : The study's conclusions indicated that strengthening required risk disclosure procedures would have a favorable impact on Indian non-financial listed businesses' valuation. These findings could be utilized by regulatory bodies and standard-setters to motivate businesses to provide more thorough and transparent risk-related data. This, in turn, may improve investor confidence, attract higher investments, and contribute to more informed decision-making.

Originality : The study added to the body of knowledge by determining how the disclosure of required risk affected Indian enterprises' valuation.

Keywords : **Tobin- *Q*, firm value, mandatory risk reporting, transparency**

JEL Classification Codes : M40, M14, M48

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Corporate annual reports' reliance on financial reporting has been demonstrated by several recent events, like the expansion of MNCs into international business and trade, the economic integration of capital markets, the shift from a closed to an open economy, the failure of corporations in developed and developing nations, and the need to encourage foreign investments in the economy (Wu & Pangarkar, 2006). Over the past few years, investors, regulators, and others have increasingly criticized corporations' financial reports for failing to comply with internal checks and controls as well as requirements and standards. Corporate reporting has observed changes in concepts, patterns, and theories to address the stakeholders' information demands. Since risk disclosures are more transparent, risk reporting is seen as a crucial component of the financial reporting process. Risk reporting can be both mandatory and voluntary. Mandatory or compulsory risk reporting refers to the disclosures mandated by the regulatory bodies. The primary aim of risk disclosures is to enrich stakeholders' confidence in the firm, which helps increase corporate reputation (Easley & O'hara, 2004).

Furthermore, mandatory disclosure of risk-related information would prevent a financial disaster and minimize agency expenses (Tache, 2021). It also decreases information asymmetry, resulting in a rise in the firm's worth. If risk is defined broadly, it can be assumed that it refers to the potential for harm or the potential that a course of action or occurrence would result in harm. The likelihood of specific damage, along with its likely intensity and duration, can all be used to establish specific hazards. It can also be defined as the likelihood of something terrible occurring, creating opportunities and threats. Any chance or potential for a risk that already had an impact on or will exhibit a suitable influence on a corporate's current and imminent cash flows is referred to as a risk (Jain et al., 2023; Linsley & Shrives, 2006). Voluntary disclosure, on the other hand, refers to firms giving far more critical facts than required by law in the hopes of reducing political and regulatory engagement and increasing stock liquidity (Entwistle, 1997). Prior studies have also identified the increase in the need for risk information sharing and the advantages of such type of quality reporting (Abdullah et al., 2015; Dua & Nainwal, 2024; Louhichi & Zreik, 2015; Tache, 2021) to analyze the interdependence between mandatory and voluntary risk disclosures on firm value. These studies include several things that must be revised for more extensive research. Companies must comply with regulatory compliance in order to report risk information transparently. Companies must submit qualitative and quantitative information related to the regulatory bodies' prescribed risk. The country's regulatory structure frequently compels business disclosure within the country's boundaries. The extent to which such information is disclosed varies by country and is governed by its legal and regulatory structures. In general, business reports contain information that meets the regulatory body's reporting and disclosure rules. As a result, the reporting agency must include a minimal quantity of information to help the evaluation.

On April 1, 2017, Ind-AS became applicable to all listed businesses in India with a net value of over ₹ 250 crores but less than ₹ 500 crores. This amended and harmonized risk disclosure methods as per IFRS standards. As a result, how risk reporting has changed in businesses' financial statements after the implementation of Ind-AS has emerged as a critical subject for investigators to address.

The present study augments the current body of risk reporting literature by focusing on the impact that binding risk reporting procedures have on firm value; the study also interposes a limited mandatory risk reporting literature in the Indian context. By establishing a mandated risk disclosure index, this study further underlines the company value resulting from the excellence of mandatory risk disclosures under Ind-AS 107. Prior risk disclosure research has not examined the impact of compulsory risk disclosure on corporate value in the Indian setting through Ind-AS 107. The current study dissects the influence of mandated disclosure procedures.

Literature Review

Every country has regulatory authorities that monitor obligatory disclosure. Regulators compel firms to provide

information that they may prefer to keep hidden. Previous studies have also found that financial analysts, investors, and related parties rely on information other than the financial data published in public documents to comment on the organizational value (Demski, 1974; Holland, 2006; Liang & Yao, 2005). Various studies have focused on different aspects of mandatory disclosures and on measuring the compliance level of mandatory risk reporting by preparing an unweighted disclosure index. Adding to the literature, Tauringana and Chithambo (2016) investigated risk disclosure compliance with IFRS-7 by calculating mandated risk disclosures using the disclosure index. The studies conducted in the past have also found non-compliance in terms of disclosing mandatory requirements. Amran et al. (2009), Elshandidy et al. (2013), Linsley and Shrives (2005), and Tauringana and Chithambo (2016) found non-compliance related to transparency regarding risk exposures in the UK, Malawi, Malaysia, and Europe. The findings from previous studies concluded that companies are not transparent in disclosing the threats in the disclosure vehicle. According to Suijs (2007), compulsory disclosure requirements improve the effectiveness of an investor's capital allocation by making it easier to distinguish between favorable and unfavorable investment opportunities. This enables the investor to invest their idle capital more efficiently.

On the other hand, Dye (1990) concluded that true externality occurs when disclosures by one business may change how investors distribute the cash flows of another firm. When true externalities exist, zero informational asymmetries cannot be achieved. Hence, mandated disclosures are required. Therefore, where there is information asymmetry, mandatory disclosure creates the prospect of something similar. Aside from the direct costs of disclosure, the idea of having lawfully compelled disclosure in securities markets is not necessary to increase information asymmetry for stakeholders (Verma, 2022).

Shivaani and Agarwal (2020) investigated the frequency and richness of risk disclosures that were made public. Furthermore, the authors stated that there were differences in risk disclosures in India and those in other countries, as well as poor overall risk disclosure quality, which might be attributed to the fact that the majority of risk items were not disclosed. Similarly, the age of an organization has a statistically significant influence on the quality of its disclosures. In general, enterprises in the midst of their life cycles lean toward far better disclosures than older, more established companies.

Einhorn (2005) and Omar and Simon (2011) focused on voluntary and mandated disclosures, which were revealed to be interrelated. Arena et al. (2023) quantified the relationship between required and voluntary risk disclosures. Healy and Palepu (2001) and Botosan and Plumlee (2002) also argued that the provision of mandatory disclosures decreases information asymmetry, increasing firm value. Due to the usefulness and relevance of this information, it is anticipated that when companies disclose risk information, stakeholders will place greater trust in them (Gupta et al., 2023; Hossain & Hammami, 2009). For these reasons, improved risk disclosures are likely to increase the company's value. Risk disclosures are understandable, sending a favorable message to external users who are primarily concerned with the transparency components of risk management.

On the other hand, the findings presented in the study conducted by Tache (2021) focused on examining the relationship between required risk reporting and the firm's worth and found favorable results. The Malaysian framework (Kamaruzaman et al., 2019) discovered a negligible and negative association between the risk reporting criteria and the company value. It was concluded that disclosures of higher quality, in the case of small firms, benefit more from risk disclosures because they minimize information asymmetry, which is also argued by the agency theory. Jain and Raithatha (2021) also investigated the relationship between mandatory risk disclosures and firm value in Indian-listed companies. Previous research has revealed that a company's dividend policy is a key factor influencing its value (Amidu, 2007; Geng & Liu, 2011).

Firms with huge sizes tend to reveal more to lessen information asymmetry, which is also supported by the agency theory, therefore, affecting the firm's value (Singh & Kaur, 2022). Prior researchers have also focused on control variables while quantifying the impact of risk disclosures on firm value. Henning et al. (2000) have

considered size, profitability, and firm age as control variables and found significant results. Risk, as estimated through the leverage of a company, also impacts the firm's valuation (Cheng & Tzeng, 2011). Companies listed on an exchange for a substantial period have refined their disclosure requirements compared to newer companies, which has both beneficial and negative consequences (Alsaeed, 2006; Charumathi & Ramesh, 2020). Based on these discussions, this study adopted a simple and direct approach and used size dimension, leverage parameters, and firm age as control variables.

Mandatory risk disclosures may have an impact on business reputation and, thus, firm value. Because a corporation's reputation is persuaded by the information it offers, the previous research supports increasing corporate reputation and further creates a link between obligatory disclosures and the corporation's value. Based on the various discussions and variability in the results presented in the review, it is presumed that mandatory disclosure practices will ominously affect the firm's value in Indian post-convergence with IFRS.

The study propounds the subsequent hypothesis :

↳ **Ha1 :** There is a significant relationship between mandatory risk disclosure practices and the firm value of Indian-listed companies.

Methods

After evaluating the dominating influence of several company-specific elements, the current analysis focuses on the bearing of mandatory risk disclosure regulations on a corporation's value. The study's sample covers enterprises that are members of the NIFTY500 Index on April 27, 2017. Eighty-eight financial enterprises, including banks, financial institutions, and insurance companies, were excluded from the final sample of 412 listed corporations due to differing risk reporting criteria. Data for the current study was collected during 5 years (2018–2022).

Risk Disclosure Index

A disclosure index was developed to measure the required risk reporting, taking into account the disclosure guidelines outlined by Ind-AS107 concerning credit risk, currency risk, interest rate risk, liquidity risk, market risk, and pricing risk. The study uses an unweighted method over the weighted because the scoring technique is deemed less subjective than other ways. The additional dichotomous scoring technique has been introduced, whereby one is provided if the item required is disclosed and zero if not, as the applied scoring technique is considered less prejudiced than other topics (Beattie et al., 2004). The disclosure index (DI) applied in the current study is expressed as follows:

$$DI_{ij} = \frac{\sum_{i=1}^{nj} d_{ij}}{\sum_{i=1}^{mj} d_{ij}}$$

where,
d_{ij} = Disclosure score of i item required of j sample. 1 for disclosed or 0 for not disclosed.
m_j = Number of all the mandatory risk items applicable to the company.
n_i = Number presented risk-related information by the company.

Data Analysis

The hypothesis is also examined using multiple regressions to determine the influence of obligatory risk

disclosures on company value. It also accounts for the influence of a subset of factors whose impact on firm value has been documented in the past (firm size, firm risk, and firm age). The study proposes the following model in equation (1) :

$$\text{Mandatory risk disclosure} = f(\text{Firm Value, control variables}) \quad (1)$$

$$\text{TOBIN-}Q_{it} = \alpha + \beta_1 + \beta_2 Mandatory\ Risk\ Disclosure_{it} + \beta_3 Firm\ Size_{it} + \beta_4 Firm\ Risk_{it} + \beta_5 Firm\ Age_{it} + \mu_{it}$$

Wherein, "*i* " refers to the business organization, and *t* refers to the time.

Tobin-*Q*	The market value of equity plus the book value of absolute liabilities divided by the total book value of assets is a proxy for the firm's value.
Mandatory Risk Disclosure (MRD)	Measures the disclosure score by preparation of the disclosure index.
Firm Size	A natural log of total assets is taken to quantify firm risk.
Firm Risk	The Debt-Equity ratio is used to quantify risk.
Firm Age	Measured by the period since listing and the last financial year.

Analysis and Results

Descriptive Statistics

Table 1 shows the important descriptive statistics for the variables used in the research. Based on the data acquired from 2018 to 2022, the average value of Tobin-*Q* is 2.22, with a high of 25.6 and a low of 0.16, indicating that Indian listed businesses have a good valuation because the mean value is more than 1. Furthermore, for the control variables, firm age has a mean value of 9.7 years, with maximum and minimum values of 44 and 3 years, respectively. The average value of firm risk is 4.172, with the highest significant value of 9.227 and the lowest of 0.01. This suggests that the corporations have significant debt in their financial structure, which further increases their financial risk.

Table 1. ***Descriptive Statistics***

Variables	Measurement	*N*	Mean	Max.	Minimum	Std. Dev.
Tobin-*Q*	Ratio	2060	2.22	25.6	0.16	3.627
Mandatory Risk	Percentage disclosure	2060	0.72	0.92	0.35	0.224
Firm Age	No. of Years	2060	9.7	44	3	2.1
Firm Size	Rupees (Crore)	2060	16884	745218	2249	4522.2
Firm Risk	Debt/Equity Ratio	2060	4.172	9.227	0.01	177.3

Multivariate Regression

Table 2 represents the outcomes of the panel unit root test pertained to check the stationarity of the data. Distinct and standard unit root tests represent the outcomes. All variables in this study were subjected to the panel unit root test. The proper equation for commencing the panel unit root test has been chosen from the three potential ones (only intercept, no trend, no intercept, and intercept + trend). Suppose the data series values are moving around zero along with forming a straight line ; in that case, the appropriate option to check the panel unit root is through "no trend, no intercept." Further, if the values of the data series move around other than zero along with the formation of no trend, then the appropriate option is "only intercept" followed by "intercept as well as a trend" if the value of the data series moves around other than zero and trend is formed. The *p*-value for ADF (Chi-Square) is

Table 2. ***Panel Unit Root Test Results***

Variables	Individual Unit Root Test				Common Unit Root Test	
	ADF Chi-Square		PP Fisher's Chi-Square		Levin Lin & Chu	
	Statistics	*p*-value	Statistics	*p*-value	Statistics	*p*-value
Tobin-*Q*	–34.445	0.000*	–58.443	0.000*	–7.951	0.000*
MRD	–20.334	0.000*	–18.229	0.000*	–27.81	0.000*
Firm Size	–12.836	0.000*	–4.332	0.000*	–6.089	0.000*
Firm Risk	–8.223	0.000*	–7.473	0.000*	–7.774	0.000*
Firm Age	–9.4562	0.000*	–6.223	0.000*	–9.421	0.000*

Note. Null Hypothesis : Unit Root, *Test values are significant at 1%.

statistically significant with (*p*-value = 0.000, <0.05). Corresponding to that, the *p*-value of Levin, Lin, and Chu is also statistically significant (*p*-value = 0.000, <0.05). The results indicate that the data is stationary since an alternative hypothesis is accepted at a 1% significance level.

The model is tested following a series of assumption checks, including unit root, multicollinearity, heteroscedasticity, normality, and autocorrelation. The results are shown in Table 4. Furthermore, the fixed effect model is compared to the random effect model to determine the most acceptable model for testing the regression equation. The Hausman test has been used to determine the most appropriate model. The results of the Hausman test are evaluated for the following hypothesis:

↳ **Ha1 :** The fixed effect model is appropriate.

Table 3 shows the results of the Hausman test, which indicates that the alternative hypothesis is accepted

Table 3. ***Hausman Test Results***

Hausman Test			
Test Cross-Section Random Effects			
Summary	**Chi-Sq. Statistic**	**Chi-Sq. *d.f.***	**Prob.**
Cross-sec random	277.178	4	0.000

Table 4. ***Outcomes of the Fixed Effect Model***

Dependent Variable : TOBIN-*Q*						
Variables	**Correlation**	**Coefficient**	**VIF**	**Std. Error**	***t*-Statistic**	**Prob.**
C		9.3089		0.005571	58.345	0.000***
MRD	0.3246	0.2148	1.258883	0.003417	2.348	0.030**
Firm Size	0.2124	0.8342	1.254921	0.005347	8.481	0.005**
Firm Age	0.4312	0.21347	1.053419	0.003421	0.789	0.552
Firm Risk	–0.1246	–0.1542	2.757989	0.045628	–15.112	0.000***
R-square	0.7089		*F*-statistic		3250.629	
Prob (*F*-stats)	0.0000		Durbin–Watson		1.97856	
Adjusted *R*-square	0.6912					

Note. Significant at * 10%, ** 5%, *** 1% levels.

because the *p*-value is less than 0.05. Based on the results of the Hausman test, the fixed effect model is adopted as the final model, which is then used to examine the effect of the independent and control variables on the dependent variable.

Due to the huge sample size, panel data regression analysis was used, assuming that the variables under consideration are normally distributed. To check the multicollinearity in the data, correlation coefficients and VIF values were investigated, and values of VIF for all the variables being less than 4 indicate no fitting problems of multicollinearity in the data.

Discussion

The results of the descriptive analysis show that the mean score of Tobin-*Q* is close to the value calculated (Charumathi & Ramesh, 2020) in the Indian setting. The mean value of mandatory risk disclosure is 72%, with a maximum of 92% and a minimum of 35%. This denotes that the Indian companies are not fully conforming with the disclosure requirements of Ind-AS107, and non-compliance is observed. This is also consistent with the report published by the Institute of Chartered Accounts of India (ICAI, 2021), where 13.79% of non-compliance with Ind-AS107 was observed. The results of the fixed effect random model in Table 4 reveal that all of the variables under the research have a substantial bearing on firm value. The results further depict that the regression model significantly determines the Tobin-*Q*, independent variable, and control variables, which inculcate mandatory risk disclosure, firm size, firm age, and firm risk and explains 69.12% of the variation in Tobin-*Q* (Adjusted *R* square = 0.6912). The regression coefficient of mandatory risk disclosure (MRD) is 0.21. It is significant at the 5% (*p*-value = 0.030, <0.05), resulting in the acceptance of Ha1, indicating that the firm's value increases with the augmentation in the mandatory risk reporting. The findings align with those of Bravo (2017), Fasihi and Hosseini (2020), and Louhichi and Zreik (2015) but differ from those of Abdullah et al. (2015). Similarly, for the control variable, i.e., firm size, the value of the coefficient is 0.83. The *p*-value of 0.005 suggests that larger firms have a higher valuation compared to smaller ones, as observed in previous studies (Charumathi & Ramesh, 2020; Deephouse & Carter, 2005; Khlif & Hussainey, 2016). Firm risk, on the other hand, depicts a negative (–0.154) significant (*p*-value = 0.000; <0.001) relation with the firm value, which concludes that Indian companies with high leverage have a low reputation in the market, which is reliable with the findings (Charumathi & Ramesh, 2020; Gupta & Bhalla, 2022) in the Indian scenario where the investors might consider the firm to be risky. Furthermore, the association between the valuation of the firm and age is found to be insignificant (*p*-value = 0.552; > 0.10), which highlights that the valuation is not impacted by the time the firm has been listed in the financial market.

Conclusion and Implications

Mandatory risk reporting has received a lot of attention in the business and finance literature, but new reports have uncovered insufficient evidence to support it. This study explores the relationship between risk disclosure and company value by assessing the necessary information given in annual reports by Indian-listed corporations. The results of the study reveal that Indian companies still have some non-compliance in adhering to the disclosure practices prescribed by Ind-AS 107, which can impact the valuation of the firm negatively. The study has clear-cut evidence of a significant interdependence between risk disclosures and firm value. An increase in the transparency of risk information will facilitate a positive, socially accountable image, boosting investor perception, trust, and confidence, which would further raise capital infusion in enterprises, help generate high returns, and increase market valuation. Taking into account recent developments in the Indian environment, such as the implementation of IFRS and the new version of Ind-AS, it is expected that mandated risk disclosure standards will be improved

even more. To address this issue, authorities in India are recommended to prioritize necessary risk information sharing to guarantee firms are compliant.

The study connects the disparity between theory and practice by examining mandatory risk disclosure. This study also enhances the corporate risk reporting literature by filling a research gap in risk reporting mandated by Ind-AS107. The subject of mandatory risk disclosure is understudied in India, providing a prospect to assess this area. Overall, the study augments the prevailing body of knowledge by exhibiting empirical evidence on India's mandatory risk disclosure practices. The required risk disclosure analysis will aid academics and researchers by providing new empirical evidence on mandated risk disclosures.

The significant outcomes of this study may be helpful in accounting and regulatory bodies in India responsible for requiring non-financial listed companies to provide risk-related information and address any shortcomings in risk reporting practices. Furthermore, regulatory authorities should consider the demands of risk disclosure information users. As a result, the MCA and ICAI are expected to settle any issues related to Indian enterprises's risk reporting processes.

As a result, it is accentuated that the management should take all appropriate actions to ensure that all compulsory information items are appropriately revealed in the yearly report to avoid penalties and thereby be rewarded by enhancement in the market valuation. It would also benefit the managers by decreasing the firm's capital cost and increasing the earnings. The study outcomes have implications for standard setters, regulatory mechanisms, and the market to take necessary steps to reduce non-compliance to generate more transparency and trust amongst the stakeholders. It is advised that all businesses should strive to prepare a focused and consolidated report that provides fruitful information about the real-time risks they face. Moreover, the frequency of risk reporting shall also be increased from a yearly basis to half-yearly or quarterly information. Such a practice will encourage robust disclosure and initiate suitable controls on the part of the management on a timely basis. Risk reporting must accurately identify the number of a company's risks and underline the importance of risk reporting in business reports. Such procedures will appropriately meet the expectations of the investors and stakeholders involved with the organization and remove the complex issues of information asymmetry. The risk reporters must always establish a checklist to disclose the organization's hazards. The risk reporting checklist must include the necessary information for recognizing the key risks that the organization confronts. It must include an acceptable management explanation of why such risks are deemed significant to the business and how it assesses them. This technique will help decision-makers counter such risks at an early stage.

Limitations of the Study and Scope for Future Research

The current study only looks at obligatory risk reporting in listed non-financial enterprises on the Nifty 500 index. Future research can aim to appraise such risk-reporting processes in (small and medium enterprises) SMEs and financial firms operating in India, as these organizations must conform to the compliances specified in IFRS. Moreover, the present study focused on scrutinizing the quantity of risk reporting only, and further studies can suitably inculcate the quality aspect of risk reporting. Additionally, the risk reporting practices in pre and post-IFRS scenarios can be analyzed, which needs to be taken up by the current study. Future researchers can work on developing a risk management, assessment, and control model that shall proactively monitor and address the potential risks faced by firms in different business scenarios. Such a model shall serve as a pertinent model in reporting emerging risks.

Authors' Contribution

Dr. Sushant Gupta conceived the presented idea and encouraged Dr. Gagandeep Singh and Dr. Ajay Chandel to

investigate this topic and find out what is to be done in this area. Dr. Gagandeep Singh and Dr. Ajay Chandel were involved in data collection and literature review. Dr. Sushant Gupta contributed to the analysis of the results. All the authors discussed the results and contributed to the writing of the final manuscript.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

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