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"ANALYZING THE VALUATION AND EFFICIENCY OF IPO'S ON THE NSE PLATFORM"

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ABSTRACT:

The primary focus of this study was to analyze the pricing and performance of equity Initial Public Offerings (IPOs) that were listed on the National Stock Exchange (NSE). The central goals included understanding the process of IPO issuance, conducting thorough assessments of both short-term and long-term IPO performance, and investigating how the emergence of the COVID-19 pandemic influenced the performance of IPOs. The research problem addressed in this study aimed to provide valuable insights to investors, with a particular emphasis on IPOs that were listed during the COVID-19 period in 2019. The study's intention was to empower investors with informed perspectives, aiding them in making prudent decisions when considering investments in IPOs, particularly those which are listed during pandemic. To effectively fulfill these objectives and tackle the research problem, the study employed standard return calculation formulas to gauge the performance of IPOs in both the short and long term. The results were presented using column charts, which served as a clear and visual means to analyze the data. Significantly, the study revealed a noteworthy observation that the COVID-19 pandemic had a substantial impact on the post-pandemic performance of IPOs. Engaging with this study enriched my understanding of IPOs, financial market.

INTRODUCTION:

An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance for the first time. An IPO allows a company to raise equity capital from public investors.

The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors. Meanwhile, it also allows public investors to participate in the offering.

The IPO process essentially consists of two parts. The first is the pre-marketing phase of the offering, while the second is the initial public offering itself. When a company is interested in an IPO, it will advertise to underwriters by soliciting private bids or it can also make a public statement to generate interest.

The underwriters lead the IPO process and are chosen by the company. A company may choose one or several underwriters to manage different parts of the IPO process collaboratively. The underwriters are involved in every aspect of the IPO due diligence, document preparation, filing, marketing, and issuance.

Steps to an IPO

1. **Proposals:** Underwriters present proposals and valuations discussing their services, the best type of security to issue, offering price, amount of shares, and estimated time frame for the market offering.
2. **Underwriter:** The company chooses its underwriters and formally agrees to underwrite terms through an underwriting agreement.
3. **Team:** IPO teams are formed comprising underwriters, lawyers, certified public accountants (CPAs), and Securities and Exchange Commission (SEC) experts.
4. **Documentation:** Information regarding the company is compiled for required IPO documentation. The S-1 Registration Statement is the primary IPO filing document. It has two parts—the prospectus and the privately held filing information.1 The S-1 includes preliminary information about the expected date of the filing.2 It will be revised often throughout the pre-IPO process. The included prospectus is also revised continuously.
5. **Marketing & Updates**: Marketing materials are created for pre-marketing of the new stock issuance. Underwriters and executives market the share issuance to estimate demand and establish a final offering price. Underwriters can make revisions to their financial analysis throughout the marketing process. This can include changing the IPO price or issuance date as they see fit. Companies take the necessary steps to meet specific public share offering requirements. Companies must adhere to both exchange listing requirements and SEC requirements for public companies.
6. **Board & Processes**: Form a board of directors and ensure processes for reporting auditable financial and accounting information every quarter.
7. **Shares Issued**: The company issues its shares on an IPO date. Capital from the primary issuance to shareholders is received as cash and recorded as stockholders' equity on the balance sheet. Subsequently, the balance sheet share value becomes dependent on the company's stockholders' equity per share valuation comprehensively.
8. **Post IPO**: Some post-IPO provisions may be instituted. Underwriters may have a specified time frame to buy an additional amount of shares after the initial public offering (IPO) date. Meanwhile, certain investors may be subject to quiet periods.

Literature Review:

1. **Monika Gorkhe, Aanchal Garg (2022):**The authors analyzed six firms between 2019 and 2021 to assess IPO performance in primary and secondary markets. Three firms experienced success on listing day while the remaining three did not. Interestingly, the study found that poorly performing IPOs on listing day generated positive returns in the secondary market, and vice versa. To evaluate results, the authors examined IPO performance from issue to the last trading price, including percentage changes. They recommended investors to select IPOs from companies consistently outperforming the market, highlighting IPO investments as an excellent learning opportunity for investors.
2. **Sayee Harshiny. S, Divya Pusa, Dr. Amalanathan P (2022)**The study analyzed 121 IPOs listed on NSE from 2018 to 2021 to assess their listing day pricing performance. Comparing IPO returns with the Nifty 200 index, the authors found zero market-adjusted abnormal return percentage. The study highlights the importance of considering factors like oversubscription in evaluating IPO success on listing day. These insights offer valuable guidance to investors assessing IPOs and their pricing dynamics.
3. **Aaron Ethan Charles Dsouza, T Ramesh Chandra Babu (2021) :**This study focused on evaluating the short-term performance of 52 IPOs listed on the NSE between 2018 and 2020. The authors aimed to identify external factors influencing IPO performance and assess the significance of abnormal IPO returns. Various statistical measurements such as T-test, regression analysis and wealth relative models were employed for analysis. The findings indicate that oversubscription has a notable impact on IPOs, while other variables showed no significant influence. This research gives required insights into short-term dynamics of IPO performance and the factors that drive it.
4. **Md Rshib Faroqi, Alakhas, Md Faiz Ahmad, Abdullah, Khudsiya Zeeshan, Mohammed Arshad Khan (2021) :**This article focused on evaluating the share premium rate of IPOs on listing day and analyzing long-term returns compared to short-term returns. The authors analyzed a sample of 26 IPOs listed in the stock

market in 2016, studying their performance over a three-year period from 2016 to 2019. The WSR test (Wilcoxon signed score assessment) was employed for the analysis. The results revealed that overpriced IPO issue prices did not yield favourable returns for investors. The authors recommend holding investments for a longer duration as it presents an opportunity to achieve higher returns. This study sheds light on the relationship between IPO pricing and long-term investment outcomes.

5. Dr. Aabha S Singhvi, Dr. Pankajraj Patel and Yash Doshi (2021) : This study aimed to examine the short-term and long-term performance of IPOs. A sample of 35 IPOs listed on both NSE and BSE stock markets between January 2019 and January 2021 was analyzed. Short-term analysis covered a period of 30 days, while long-run analysis spanned one year from the listing date. The null hypothesis assumed equal returns in both short and long terms, with the alternative hypothesis suggesting otherwise. The ANOVA test results led the authors to accept the null hypothesis, indicating no significant variation in the performance of IPOs between short and long terms.

Research Gap:

As per my literature review previously authors made a analysis on performance of IPOs which are listed before covid pandemic and made only listing day analysis of IPO's (sector wise) in secondary market during covid period. Therefore, this study considered the IPO's listed at NSE before or at initial stage of covid period i.e., in the year 2019 and made short-run performance analysis of IPOs till 2020 (during covid period) and long run performance analysis of such IPOs till 15-may-2023(after covid period).

Statement of the problem:

Many investors could be hesitant to invest in the initial public offerings (IPOs) that are launched during the COVID period because of the potential negative financial consequences that the country's economy suffered during the pandemic crisis. Therefore, this study assists investors in understanding the short- and long-term success of such IPOs and helps them to make investment decisions.

Need for the study:

The need of this research is to stimulate investor interest in IPOs by offering pre-prepared analyses of IPOs.

- ## Objectives of the study:

1. To understand the procedure of IPO's.
2. To test whether the changes in performance of IPOs is due to covid pandemic situation.
3. To analyze and suggest whether the short run or long run investment in IPO's is better.

- ## Scope of the study:

This study covers all the equity IPOs listed at NSE in the year 2019 and study focused on conducting short-run analysis till 2020 and long-run analysis till 15-may-2023.

- ## Research Methodology:

This project entails conducting analytical research using secondary-data to analyze the performance of IPO prices in both the short-run and long-run. The analysis involves collecting the listed price of IPOs, their price after one year (representing the short-run), and their price as of May 15, 2023 (representing the long-run) from the NSE website. The price differences of IPOs are determined using the return calculation formula: $\{(p-p_0)/p_0*100\}$, and a column chart is utilized to visually represent the price variations over a selected period for ease of analysis. Finally, the project employed a T-test to test the hypothesis.

Sample size:

For the analysis, a sample of 11 equity IPOs was selected from the NSE website.

- ## Hypothesis:

H_o: There is no much impact of Covid pandemic situation on performance of IPO's

H_1: There is an impact of Covid pandemic situation on IPO performance.

- **Limitations:**

Since the project focuses on IPOs listed on the NSE, the scope of the study is limited to the NSE market. Additionally, the study specifically examines equity IPOs listed during the year 2019.

DATA ANALYSIS

1. Chalet Hotels Limited (CHL)

Table 1: Showing ST & LT returns of CHL IPOs

Listed Date	Listed Price (P_0)	Price after 1 year(P_1)	Price as on (15-5-2023) (P_2)	ST Return	LT Return
07-Feb-19	294	342	418.3	16.3265	42.2789

2. MSTC Limited

Table 2: Showing ST & LT return of MSTC limited IPOs

Listed Date	Listed Price (P_0)	Price after 1 year(P_1)	Price as on (15-5-2023)(P_2)	ST Return	LT Return
29-Mar-19	111	76.8	307	-30.8108	176.5765

3. Rail Vikas Nigam Limited (RVNL)

Table 3: Showing ST & LT return of RVNL IPOs

Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-5-2023)(P_2)	ST Return	LT Return
11-Apr-19	19	18.35	123.5	-3.4210%	550%

4. Metropolis Healthcare Limited (MHL)

Table 4: Showing ST & LT return of MHL IPOs

Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-may-2023)(P_2)	ST Return	LT Return
15-Apr-19	958	1220	1360.9	27.3486%	42.0564%

5. polycab India Limited (PIL)

Table 5: Showing ST & LT return of PIL IPOs

Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-may-2023)(P_2)	ST Return	LT Return
16-Apr-19	633	731.1	3400	15.4976%	437.1248%

6. IndiaMART InterMESH Limited

Table 6: Showing ST & LT return of IndiaMart limited IPOs

Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-may-2023)(P_2)	ST Return	LT Return
04-Jul-19	1180	2085	5900	76.6949%	400%

7. Spandana Sphoorty Financial Limited (SSFL)

Table 7: Showing ST & LT return of SSFL IPOs

Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-may-2023)(P_2)	ST Return	LT Return
19-Aug-19	825	585	642.7	-29.0909%	-22.0970%

8. Indian Railway Catering and Tourism Corporation Limited (IRCTC)

Table 8: Showing ST & LT return of IRCTC limited IPOs

Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-may-2023)(P_2)	ST Return	LT Return
14-Oct-19	626	1350	625	115.6549%	-0.1597%

9. CSB Bank Limited

Table 9: Showing ST & LT return of CSB Bank limited IPOs

Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-may-2023)(P_2)	ST Return	LT Return
04-Dec-19	275	226	291.2	-17.8182%	5.8909%

10. 'Ujjivan Small Finance Bank Limited'(USFBL)

Table 10: Showing ST & LT return of USFB limited IPOs

Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-may-2023)(P_2)	ST Return	LT Return
12-Dec-19	58.75	39	31	-33.6170%	-47.2340%

11. Prince Pipes and Fittings Limited (PPFL)

Table 11: Showing ST & LT return of PPF limited IPOs

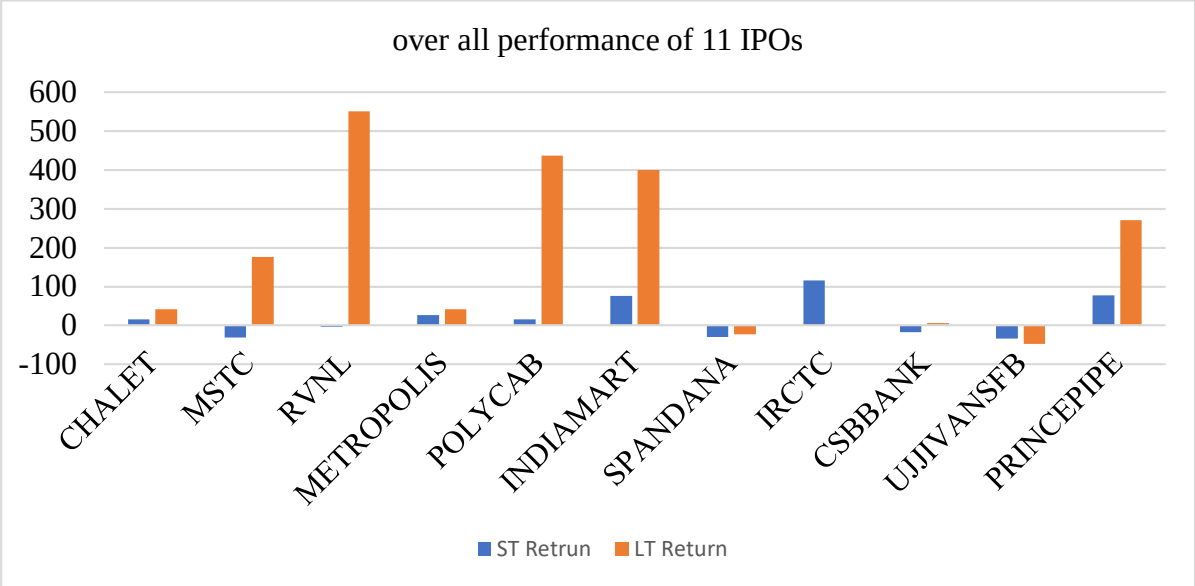
Listed Date	Listed Price(P_0)	Price after 1 year(P_1)	Price as on (15-may-2023)(P_2)	ST Return	LT Return
30-Dec-19	160	284.4	593.3	77.75%	270.8125%

- **overall analysis on short term and long-term performance of 11 equity IPOs which are listed in the year 2019:**

Table 12:

Company names	ST Return	LT Return
CHALET	16.3265	42.2789
MSTC	-30.8108	176.5766
RVNL	-3.421	550
METROPOLIS	27.3486	42.0564
POLYCAB	15.4976	437.1248
INDIAMART	76.6949	400
SPANDANA	-29.0909	-22.097
IRCTC	115.655	-0.1597
CSBBANK	-17.8182	5.8909
UJJIVANSFB	-33.617	-47.234
PRINCEPIPE	77.75	270.8125

Graph 12:



Testing of hypothesis using T test:

H_0: There is no impact of Covid 19 pandemic situation on post covid performance of IPOs.

H_1: There is an impact of Covid 19 pandemic situation on post covid performance of IPOs.

Hypothesis is tested by considering following data:

Company Names	Return after covid period	Return during covid period
CHALET	42.2789	16.3265
MSTC	176.5766	-30.8108
RVNL	550	-3.421
METROPOLIS	42.0564	27.3486
POLYCAB	437.1248	15.4976
INDIAMART	400	76.6949
SPANDANA	-22.097	-29.0909
IRCTC	-0.1597	115.655
CSBBANK	5.8909	-17.8182
UJJIVANSFB	-47.234	-33.617
PRINCEPIPE	270.8125	77.75

Table 13: showing calculations of Hypothesis testing:

Company Names	Return after covid period (X_i)	Return before covid period (Y_i)	Difference ($D_i = X_i - Y_i$)	Difference squared D_i^2
CHALET	42.2789	16.3265	25.9524	673.5270658
MSTC	176.5766	-30.8108	207.3874	43009.53368
RVNL	550	-3.421	553.421	306274.8032
METROPOLIS	42.0564	27.3486	14.7078	216.3193808
POLYCAB	437.1248	15.4976	421.6272	177769.4958
INDIAMART	400	76.6949	323.3051	104526.1877
SPANDANA	-22.097	-29.0909	6.9939	48.91463721
IRCTC	-0.1597	115.655	-115.8147	13413.04474
CSBBANK	5.8909	-17.8182	23.7091	562.1214228
UJJIVANSFB	-47.234	-33.617	-13.617	185.422689
PRINCEPIPE	270.8125	77.75	193.0625	37273.12891
			$\sum D_i = 1640.7347$	$\sum D_i^2 = 683952.4992$

$\sum D_i = 1640.7347$ $n = 11$ $\sum D_i^2 = 683952.4992$

- Calculation of Mean of difference:

$$\bar{D} = \frac{\sum D_i}{n}$$

$$\bar{D} = \frac{1640.7347}{11}$$

$$\bar{D} = 149.1577$$

- Calculation of Standard deviation of difference:

$$\sigma_{diff} = \sqrt{\frac{\sum D_i^2 - (\bar{D})^2 * n}{n-1}}$$

$$\sigma_{diff} = \sqrt{\frac{683952.4992 (149.1577)^2 * 11}{11-1}}$$

$\sigma_{diff} = \sqrt{43922.4285}$ Therefore, $\sigma_{diff} = 209.5768$

- Calculation of T value:

$$T = \frac{\bar{D} - 0}{\frac{\sigma_{diff}}{\sqrt{n}}}$$

$$T = \frac{149.1577-0}{\frac{209.5768}{\sqrt{11}}}$$

$$T = \frac{149.1577}{209.5768/3.3166}$$

$$T = \frac{149 \cdot 1577}{63 \cdot 16025}$$

T test value = 2.3616

- To test the hypothesis, we required:

T test calculated value: 2.3616, Degrees of freedom = n -1 (11-1 =10)

As H_o is one sided let us apply one tailed t test with level of significance as 0.05 and 10 degrees of freedom.

Critical value = ±1.812

Therefore, t >1.812

2.3616 >1.812

As per the test conducted, we can come to end that the calculated t-value (2.3616) is greater than the critical value of t-distribution (1.812). Therefore, we accept the alternative hypothesis (H_1) and affirm that there is an impact of COVID-19 on IPOs performance. However, it is important to notice that other variables, including internal and external factors specific to the company, may have also influenced the performance of IPOs.

Findings:

1. The companies with the greatest short-term returns and greatest long-term returns are INDIAMART and IRCTC exhibiting the highest profits. The RVNL and Polycab demonstrating the highest profitability over an extended period.
2. Spandana and Ujjivan SFB have negative returns in both the short-term and long-term periods.
3. Chalet, Metropolis, Polycab, IndiaMART and Princepipe have positive returns in the short-term and long-term periods.
4. CSB Bank, MSTC, RVNL has a negative short-term return but a positive long-term return.
5. IRCTC have a positive short-term return but a negative long-term return.
6. Except SPANDANA, IRCTC, UJJIVANSFB companies all other companies have positive return in long-run.
7. Based on a review of the success of eleven firms' initial public offerings, we can come to conclusion that while short-term returns on IPOs can occasionally be profitable, long-term investments yield good returns.
8. The study sought to determine how COVID-19 affected the success of initial public offerings (IPOs). The t-test results showed that COVID-19 had a significant impact on the returns of company IPOs.
9. As per the formulated hypotheses, it was determined that COVID-19 has an effect on the returns (performance) of IPOs. However, it is crucial to acknowledge that other variables, including internal and external factors specific to the companies, may have contributed to both positive and negative changes in IPO performance.

Suggestions:

1. Companies with positive returns in both the short-term and long-term, such as CHALET, METROPOLIS, POLYCAB and INDIAMART may be suitable for both short-term and long-term investment.
2. Companies like MSTC and RVNL which faced short-term challenges but showcased strong recovery and growth in the long-term, may be more suitable for long-term investment strategies.
3. Before making any investment decisions, it is advisable to closely evaluate companies with negative returns in both the short-term and long-term, namely MSTC, SPANDANA, CSBBANK, and UJJIVANSFB. Conduct a thorough analysis of their financial health, market conditions, and future prospects to assess the risks associated with investing in these companies.
4. Investors should diversify their portfolio by investing in companies from different sectors to minimize risk. Relying solely on companies with positive returns is not be advisable.
5. “Based on the analysis of IPOs in both the short-term and long-term, the study disclose that a majority of IPOs performed well in the long-run. Therefore, we recommend investors to consider making long-term investments to blow up their returns.”

6. Investors need to understand their risk appetite and investment aims/goals before making any type of investments.

Conclusion: In this study, we conducted an analysis to compare the short and long-term return performance of 11 equity IPOs listed on NSE in 2019 and suggest best among both. Our main objective was to investigate whether there was an impact of the pandemic on the post-COVID performance of these IPOs. To ascertain the returns, we employed a return calculation formula and utilized T-tests to check out the effect of COVID-19 on IPOs-performance. Our findings led us to support the alternative hypothesis (H_1), indicating that there is a significant impact of the pandemic on the post-COVID performance of IPOs. As per the comprehensive analyses conducted, we recommend that investors opt for long-term investments to attain better returns. Our research suggests that long-term investments offer distinct advantages compared to short-term returns, and they are likely to be more favorable in the context of IPO performance affected by the pandemic.

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