Study on Issue Price Performance of IPO's (Initial Public Offering) In India

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Abstract

IPO is issuing new securities on an exchange companies use these strategies to refinance the firm and finance new investment, also going public adds value to a firm due increased liquidity and it is considered to be a better way to raise capital The study examines the listing day, 30th and 90th day returns of IPOs in the Indian stock market over Banking and Finance, Manufacturing, Construction, Pharma. Underpricing in IPOs is persistent worldwide phenomena. The study attempts to measure the Underpricing/overpricing in Indian IPOs. The sample size is 52 IPOs from 2015-2018 spread across above mentioned sectors. Finding from the research included that the majority of issues were mega issues and manufacturing provided the highest return meanwhile construction sector performed worst of the selected sectors, further study concluded that Underpricing issues is present largely in Indian market which it is able to sustain that price level for long run

Keywords: Underpricing, Overpricing, Returns, Stock Market.

1. Introduction

Usually the IPO is referred to as a flotation, which the public issuer or a company for that matter that proposes to the interested public in the form of shares or ordinary stock. So the first sale of stock by a private company to the general public is defined **as** (Dr.Savitha.P.2019).IPO.Company's that are looking for finance that can help them to grow and expand their business generally go for IPO and IPOs re mostly offered by medium size and new firms. Company's opting for this route is called public offering

After the public issue process, the securities are listed and traded in the secondary market. Going public is a means to companies to raise cash and is a good source of investment for public. But IPOs are under-priced in the short run and underperform in the long run. The high volatility and losses on investments in IPOs dissuade investors from participation in an IPO (Dr. K Srinivasan2018). SEBI has often expressed concerned to IPO. Recent framework relating to data transparency and pricing. But IPOs is still not an attractive investment opportunity for Retail Investors. But increasing financial inclusion and education in financial planning is hoped to revive the attraction of IPO investment by retail investors.

The major challenge being confronted by the IPO firms during their process of going public is the criteria to price their offers. Yet it is much more perplexing for the investors as well as the practitioners comprising

academic scholars**.** (Harmohan Singh Dhall, 2017) Various empirical studies that IPOs valuation can be determined by various method like fundamental accounting statistics or by comparing the IPO firm with other companies within same industry or equivalent one. Though the widely accepted method of valuation is through financial figures and other signals. in spite plethora of study on valuation IPO pricing still remains unsolved

2. Literature review

Dr. Nalina K B, Rakesh H M (2017) conducted research on "INDIAN IPO PERFORMANCE". Purpose of this study was to know about pricing of an issue and book building process. 218 IPOs 2007-2016 data were taken as sample based on secondary data and NSE website as data source. The study concluded that due to subprime crisis in 2007 stock returns were negative.

Dr.Vikas Gupta and Mr Nitin saxena (2016) done research of study on "Issue Price Performance of IPOs in India 2010-2014". Objective behind the research was to know returns generated by IPO on listing day. For study purpose 113 companies were taken for analysis. Paper concludes that Indian IPOs are under-priced because of oversubscription and it is advisable to invest in short tern return.

S S S Kumar conducted research on 'Short and Long-Run Performance of Bookbuilt IPOs in India'. The study includes all the new equity issues offered through book building route on the (NSE) from 1999 till May 2007.. The study concluded In the long run the IPOs offered positive returns up till twenty four months but subsequently they underperform the market. The excess buy and hold returns from IPOs are not positive both in the short term as well as in the long run.

Arwah Arjun Madan (2003) conducted research on "Investments in ipos in the Indian Capital Market." the study concluded that There is a significant fall in the initial excess return registered by IPOs during the Commodity Channel Index times.

Dr.Savitha.P. (2019) has conducted research on "under-pricing or overpricing of the initial public offering (IPO's): a study of Indian IPO market The study concludes that under-pricing as well as overpricing of the public offering existsUnder-pricing helps the investors to gain the positive returns whereas overpricing makes the investors to obtain loss from their investments been made in the IPO's.

A.R. Tripathi, Gautam Pratap Pradhan and Shri Narayan (2017) has conducted research on "SME IPOs in Indian Capital Market".. Average IPO size is 8 crore. It is considered positive step by India for creating BSE SME index and NSE emerge.

Dr. Nalina K B, Rakesh H M (2017) conducted research on "Indian IPO Performance".. The study concluded that due to subprime crisis in 2007 stock returns were negative.

3. Research Methodology

3.1 Problem Statement.

– Are Performance of IPOs in India under-priced?

3.2 Primary Objective

- To evaluate performance of IPO in India

3.3 Secondary Objective

- To analyse the various IPO Issue for long run and short run in the Indian Capital Market.

- To Examine the extent of Under-pricing/overpricing of the Indian IPOs

3.4 Research Design

Descriptive research design is used to describes performance of IPOs in India

3.5 Data Collection

- Secondary data are used for research and Data has been collected from www.chittorgardh.com, www.NSE.com, www.BSE.com. www.yahoofinance.com website

3.6 Sampling

- The total of 52 Companies IPOs that were listed in Stock Exchange from the year 2015 to 2018 are used in this research.

3.7 Formulas used

Initial Returns

$$\left(\frac{P1 - P0}{P0}\right) \times 100$$

Where,

P1= closing price of listing day

P0=offer price

Market adjusted Return

$$\left(\frac{P1 - P0}{P0} - \frac{M1 - M0}{M0}\right) \times 100$$

Where,

M1= Closing value of the market index on the listing day.

M2= Closing value of the market index on the offer closing day.

30 days return

$$\left(\frac{30th\ day\ price - Offer\ Price}{Offer\ Price}\right) \times 100$$

90 days Return

$$\left(\frac{90th\ day\ price - Offer\ Price}{Offer\ Price}\right) \times 100$$

Long Run Return

$$\left(\frac{90th\ day\ price - Listing\ day\ closing\ price}{Listing\ day\ closing\ price} \right) \times 100$$

4. Data Analysis.

Table no.4.1 Represents Average, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2015 to 2018

Sectors	Average	Standard Deviation	Minimum	Maximum
Healthcare	17.58	22.43	-21.55	50
Construction	2.49	18.650	-20.66	37.02
Manufacturing	31.65	54.2044	-8.92	143.05
Banking	10.72	34.1292	-54.55	75.57

Interpretation

Manufacturing has shown highest amount of returns followed by healthcare, Banking and construction. On the other hand standard deviation of manufacturing is deviated the most 54.20. Minimum return provided was of banking was the least -54.55 and the highest return was provided by the manufacturing 143.055.Manufacturing has the highest amount of risk which can be determined by standard deviation followed by banking, Healthcare and Construction.

Returns of IPOs

Table no.4.2 Represents 30th and 90th day Returns, long run Return, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2015 to 2018

Returns	Mean	Standard Deviation	Max Return	Min Return
30th day return	12.26	22.02	46.2	-14.52
90th day return	15.61	33.68	70.96	-22.77
long run return	14.796	36.38	79.89	-17.79

Interpretation

The descriptive statistics such as mean, standard deviation, and maximum and minimum return on the, 30th day and 90th day returns for the period 2015 to 2018. It is observed that the average return on the 30th day were 12.26%, ranging from -14.52 to 46.2. And 90 days returns is 15.61 ranging from -22.77 to 70.96 and further

long run return is 14.796% ranging from 14.796 to 79.89. Standard deviation (risk) increases from as the days increases i.e. 22.02 to 33.68.

Table no.4.3 Represents 30th and 90th day Returns, long run Return, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2015 to 2018

Returns	Mean	Standard Deviation	Max Return	Min Return
30th day return	17.38	24.27	61.90	-10.55
90th day return	31.63	46.20	141.35	-12.27
long run return	10.99	27.18	83.55	-9.87

Interpretation

The descriptive statistics such as mean, standard deviation, and maximum and minimum return on the, 30th 90th day returns for the period 2015 to 2018. It is observed that the average return on the 30th day were 17.38%, ranging from -10.55 to 61.90. And 90 days returns is 31.63 ranging from -12.27 to 141.35 and further long run return is 10.99% ranging from -9.87 to 83.55

Table no.4.4 Represents 30th and 90th day Return, long run Return, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2015 to 2018

Returns	Mean	Standard Deviation	Max Return	Min Return
30th day return	8.65	43.79	102.18	-61.59
90th day return	27.99	50.52	140.90	-60.26
long run return	9.55	28.83	80.13	-41.01

Interpretation

The descriptive statistics such as mean, standard deviation, and maximum and minimum return on the, 30th day and 90th day returns for the period 2015 to 2018. It is observed that the average return on the 30th day were 8.65%, ranging from -61.59 to 102.18. And 90 days returns is 27.99 ranging from -60.26 to 140.90 and further long run return is 9.55% ranging from -41.01 to 80.13

Table no.4.5 Represents 30th and 90th day Return, long run Return, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2015 to 2018

Returns	Mean	Standard Deviation	Max Return	Min Return
30th day return	29.78	59.39	162.20	-50.12
90th day return	38.25	63.18	153.70	-42.05

long run return	0.21	23.84	47.83	-38.16

Interpretation

The descriptive statistics such as mean, standard deviation, and maximum and minimum return on the 30th and 90th day returns for the period 2015 to 2018. It is observed that the average return on the 30th day were 29.78%, ranging from -50.12 to 162.20 And 90 days returns is 38.25 ranging from -42.05 to 153.70 and further long run return is .021% ranging from -38.16 to 47.83

Year wise returns of IPOs

Table no.4.6 Represents 30th and 90th day Return, long run Return, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2018

Returns	Mean	Standard Deviation	Max Return	Min Return
30th day return	15.75	20.37	45.94	-14.53
90th day return	25.22	35.71	76.64	-22.77
long run return	4.97	22.20	38.32	-17.79

Interpretation

The descriptive statistics such as mean, standard deviation, and maximum and minimum return on the 30th and 90th day returns for the period 2015 to 2018. It is observed that the average return on the 30th day was 15.75%, ranging from -14.53 to 45.94. And 90 days returns is 25.22 ranging from -22.77 to 76.64 and further long-run return is 4.97% ranging from -17.79 to 38.32

Table no.4.7 Represents 30th and 90th day Return, long run Return, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2016

Returns	Mean	Standard Deviation	Max Return	Min Return
30th day return	17.06	31.90	79.50	-50.12
90th day return	31.60	46.82	141.35	-42.05
long run return	13.84	32.07	83.55	-38.16

Interpretation

The descriptive statistics such as mean, standard deviation, and maximum and minimum return on the, 30th and 90th day returns for the period 2015 to 2018. It is observed that the average return on the 30th day were 17.06%, ranging from -50.12 to 79.50. And 90th days returns is 13.84 ranging from -22.77 to 70.96 and further long run return is 14.796% ranging from -38.16 to 83.55.

Table no.4.8 Represents 30th and 90th day Return, long run Return, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2017

Returns	Mean	Standard Deviation	Max Return	Min Return
30th day return	32.94	67.45	162.2	-61.59
90th day return	48.69	66.59	153.7037	-60.26
long run return	8.62	25.82	79.89975	-17.09

Interpretation

The descriptive statistics such as mean, standard deviation, and maximum and minimum return on the 30th and 90th day returns for the period 2015 to 2018. It is observed that the average return on the 30th day were 32.94%, ranging from -61.59 to 162.2. And 90 days returns is 48.69 ranging from -60.26 to 153.70 and further long run return is 8.62% ranging from -17.09 to 79.89

Table no.4.9 Represents 30th and 90th day Return, long run Return, Standard Deviation, Minimum, Maximum of Sectors Healthcare, Construction, Manufacturing, Banking from the year 2018

Returns	mean	Standard Deviation	Max Return	Min Return
30th day return	-0.97	22.56	35.5064	-36.22
90th day return	8.50	36.87	86.52	-39.56
long run return	0.71	28.22	47.83	-41.016

Interpretation

The descriptive statistics such as mean, standard deviation, and maximum and minimum return on the 30th and 90th day returns for the period 2015 to 2018. It is observed that the average return on the 30th day were -0.97%, ranging from -36.22 to 35.50. And 90 days returns is 8.50 ranging from -39.56 to 86.52 and further long run return is 0.71% ranging from -41.016 to 47.83

Table no.4.10 Represents Under-priced/Overpriced scenario of Banking, Manufacturing, Healthcare, Construction sectors

Sectors	Under-priced	Overpriced
Banking	7	4
Manufacturing	13	5
Healthcare	3	4
Construction	13	3

Table above Illustrates that most of the IPOs are under-priced in India like 7 in banking 13 in manufacturing, 3 in healthcare and 13 in construction

Table no.4.11 Represents Types and No of issues of Banking, Manufacturing, Healthcare, Construction sectors from year 2015 to 2018

Type of Issue	No. of Issues
Mega Issue	103
Small Issue	6
Total Issue	109

Table above Illustrates that Issues more than 100 crore are in the category of mega issues and less than 100 crore in small issue as it can be seen in the table that most of the IPO are mega issues

6. Finding

- It is found that 52 that were used in study most of IPO were under-priced.
- It is found that2016 posted the highest long run return 13.840%.
- It is found that 36 IPO out of 5 were under-priced and rest 16 were overpriced.
- Risk and Returns increases if the investors stays more days in an IPO.
- It is evident that 30th and 90th day found to be underperforming.
- Market adjusted returns did not affected largely on performance of IPOs.
- Capacit'e Infraprojects Limited IPO is most under-priced IPO in construction sectors on the listing day.
- Dr. Lal PathLabs Limited IPO is most under-priced IPO in healthcare sectors on the listing day.
- Salasar Techno Engineering Ltd IPO is most under-priced IPO in manufacturing sectors on the listing day.
- HDFC Asset Management Company IPO is most under-priced IPO in banking sectors on the listing day.

7. Conclusion.

The study examines IPO issued from the year 2015 to 2018, 52 IPOs sectorial wise and It concludes that investing in IPO is a risky job as there is very little historical data available for analysing the stocks, making it difficult to predict their listing day performance. Manufacturing sector provided the highest amount of Returns followed by Healthcare, Banking and Construction. Furthermore 2017 was the best year for IPOs. Whereas 2018 was the worst because it posted negative Returns. While 2015 and 2016 performed averagely. Initial returns of manufacturing were the highest while construction provided lowest returns whereas banking and healthcare provided positive returns.

8. Recommendation

The investors should hold their equities for longer period, the long run IPO tends to move to their true value driving out much of Under-pricing. There is an extent of over subscription will lead to larger First Gains for the

IPOs. Investor should prefer larger firm even if it pays lower dividend but it would be compensated as larger firms has larger cash balances

9. References

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