A STUDY ON PRICING AND PERFORMANCE OF THE IPO IN CONTEXT TO NSE.

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ABSTRACT

The Present Study has been undertaken to gauge the pricing and performance of IPO's of companies listed in NSE, using a sample of IPO's that tapped the NSE market during 2015- 2020 by taking in consideration of their prices. The study also examines the procedure of investing in IPO's and to prefer investor whether the short run or long run investment is preferable. To calculate the short-term return of IPO 2 years' time period have been taken and for long term return 5 years' time period have been taken. I have analyzed that if the investor invests in reputated or MNC company then they may get amount of returns when compared to if they invest in less Reputated. In addition, I have also found that long term return is low because of the current covid pandemic situation. Therefore, as per my study I would prefer investor to invest in short term investment. IPO's are ahead importance worldwide as an important source of funds for the companies to setup their growth by using the mobilized funds to implement innovative strategies as well as considered as important tool for investment since it offers huge profits.

1.INTRODUCTION

IPO is the process by which a private company can go public by sale of its stock to general public. It could be a new, young company or an old company which decides to be listed on an exchange and hence goes public. Companies can raise equity capital with the help of an IPO by issuing new shares to the public or the existing shareholders can sell their shares to the public without raising any fresh capital.

A company offering its shares to the public is not obliged to repay capital to public investors. The company which offers its shares, known as an issuer, does so with the help of investment banks. After IPO, the company's shares are traded in an open market. Those shares can be further sold by investors through secondary market trading.

Companies must meet requirements by exchanges and securities and Exchange commission (SEC) to hold an IPO. IPOs provide companies with an opportunity to obtain capital by offering shares through the primary market. Companies hire investment banks to market, gauge demand, set the IPO price and date, and more.

The investor can apply for IPO stock by filling an IPO application form. These forms are usually available with stockbrokers for free. The investor can also apply for IPO stock online stock brokers like ICICI bank, Share Khan and Reliance Money. Chittorgarh.com, India's most trusted IPO investment portal, provide recent IPO information from the primary stock market. IPO tools available on this website includes IPO Allotment Status, IPO Bidding Information, IPO Ratings, IPO Grading, IPO Reviews, Grey Market Premiums of IPO, IPO News and IPO Performance Tracker.

The term IPO has been a buzzword on wall street and among investors for decades. The Dutch are credited with conducting the first modern IPO by offering shares of the Dutch East India company to the general public. Since then, IPOs have been used as a way for companies to raise capital from public investors through the issuance of public share ownership. Through the years, IPOs have been known for uptrends and downtrends in issuance. Individual sectors also experience uptrends and downtrends in issuance due to innovation andvarious other economic factors.

An IPO comprehensively consists of two parts. The first is the pre-marketing phase of the offering, while the second is the IPO 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 underwrites 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.

Trading on an exchange also makes mergers and acquisitions easier. Due to increased visibility, companies going public may also experience an increase in prestige, which can improve their creditability with suppliers and customers, resulting in better credit terms and more pricing leverage. Even the increased scrutiny of public companies is not all bad since it usually allows the company to issue debt at lower rates.

II. LITERATURE REVIEW

1. **Ajay Yadav, Sweta Goel (2019)** there are several ways of raising funds from primary market but, IPOs are the widely adopted tool by the companies to raise funds from open market for the initial sale of stock by private company. India being a developing nation and flourishing corporate network is focused on IPO. The motivation behind this examination is to understand the case of under-pricing exists to think about whether or not an Indian IPO and the impact of the administrative system on IPO under-pricing. In this examination enterprise information is broken down by descriptive and comparative method. Indian market has more under-pricing than overpricing.

2. Aloysius Edward J (2019):

In this article the researcher analysed that the capital market promotes economic growth through promoting savings and increases productivity. One of the major reforms is the primary market including IPOs started emerging as one of the foremost source of funds for Indian companies and also an important opportunity for retail investors to apportion their funds for higher return. To address one of issue in this paper SEBI has changed the basis of allotment of IPO to retail investors from pro-rata basis to lottery method since 2012. Two methods are widely used for an IPO, book building and fixed price issue. Out of 132 companies raised funds through IPO 14 companies are taken for study based on its issue size. It is found that the companies which had listing gain also had current market price gain. The companies which had substantial oversubscription had both listing and current market price gain.

3. **Ashish Kumar Suri and Bhupendra Hada (2018) in** their paper stated they considered 107 IPO's launched during the period 2011 to June 2017 on the basis of two performance indicators i.e. over-subscription and listing day gains. This study aims at comparing the performance of the IPO's for two periods January 2011-May 2014 and June 2014-June 2017. The results of the study show that the performance of the IPO's launched during the period 2011-May 2014 significantly differs from the performance of the IPO's which were launched between June 2014-June 2017. It was also examined that the number of IPO's and the fundraised through them also differ considerably for the two periods.

4. **Garima Baluja, Balwinder Singh (2016):**

In their research paper stated IPO market has witnessed vast fluctuations in the post SEBI era. Still several new issues have entered the market during this period, and only a few managed to survive well. A lot of researchers have verified the aftermarket performance of such IPOs; however, the phenomenon of IPO's survival has remained a neglected issue in India. Therefore, the need arises to probe the factors behind and the success and fiasco of new issues in the market. The purpose of this paper is to critically analysis the voyage of IPOs in terms of their survival in the aftermarket

5. **S. Poornima, AalaaJ.Haji, Deepa (2016)** Initial public offerings are gaining importance worldwide as an important source of funds for the companies to accelerate their growth by using the mobilized funds to implement innovative strategies as well as considered as an important tool for investment since it offers huge profits on the listing day. In this study the short run performance of the companies is analysed to understand the anomaly of abnormal returns as well long term performance to analyse the performance of the IPO's in the long run. The period of study is from Jan 2013 – Dec 2014. The sample for the study includes 9 companies listed in National Stock Exchange of India pertaining to the study period. The results of this study will throw light on the performance of the IPO's which are majorly considered as a speculative tool and hence aid in better decision making for the investors. The findings will also help conclude if IPO can be a long term investment tool or a speculative opportunity to earn booming profits.

6. **Divya (2013)** examined the study various companies adopting the book building route and faces under-pricing. Various IPOs stocks under-priced and overpriced in first day like japee infratech and Talkwalkers book building is suitable only for mega issues.

7. **Gadesurendar and Dr. S. Kamaleshwari Rao (2011)** stated that Companies raise in the primary market by way of initial public offers, rights issue. An initial public offering is one through which an unlisted company makes either a fresh issue of securities of an offer for sale of its existing securities or both for the first time to be public. IPS's deepen the market diversify investors portfolio, reduce volatility in stock prices bring investors' money into the market.

8. **Qiming Wang (2010)** The price clustering of initial public offerings in the secondary market trading

during the first 240 trading days after their IPO DATES. The result indicates the huge difference between the integer price frequency of IPS'S in the primary market and that of matched stocks in the secondary market almost disappears on the first trading day after IPO.

9. **S.S.S. KUMAR (2010)** stated that the performance issued through the book building process in India over the period 1999-2006.the sample comprises 156 firms that upon listening the IPO's on an average offered positive returns up till twenty-four months but subsequently they underperform the market.

10. **Singh and Kumar (2008)** have analysed short and long run underpricing of IPOs in the Indian Capital markets by looking at different factors affecting them. The study proposed a model of under-pricing taking oversubscription variables along with the age and size. They have performed industry wise analysis from the time period of Jan 2006 to Oct 2006 by taking 116 IPOs. The study shows that Indian Capital markets are found to follow industry specific waves. The sectors which are performing well are more under-priced in short run as well as perform well in long run.

Research Gap

By examining the previous studies, I had found that those studies are limited to one particular time period and the return will differ based on different time periods.

In this study I have taken the data of past 5 years i.e.,2015-2020 that are not considered in the previous study and by taking the data of different IPOs that are listed in NSE particularly.

III. Objectives of the Study:

- To identify the pricing and performance of the IPO.
- To know the procedure of investing in IPO.
- To suggest/prefer investor whether the short run or long run investment ispreferable.

IV. Hypotheses:

The study examines initial and post listing performance of IPOs. Therefore, the hypotheses being tested are:

H0: There is no significance relationship between listing day performance and price of theIPO.

H1: There is a significance relationship between listing day performance and price of theIPO.

H0: Investor earning is more in long term than that of the earning in short termH1: Investors earning in short run is more than that of the earning in long run.

Limitations:

1. The study is restricted only to the companies which are listed in NSE.
2. The only 5 years (2015-2020) data will be considered to analyse the performance ofIPOs.

IV. Research Methodology

The data for the study is mainly collected from NSE website. The analysis is based on the company listed in NSE during the years 2015-2017. The secondary data was collected from various sources available like website wherever necessary. The study is mainly analytical in nature.

V. Data analysis and interpretation

Return on investment = $\frac{P-Po}{Po}*100$

Where:

P = future value

Po = previous value

VRL Logistics

Long term return(2015) $\frac{P-Po}{Po}*100$

$$\frac{164.05-293.3}{293.3}*100 = -44.06$$

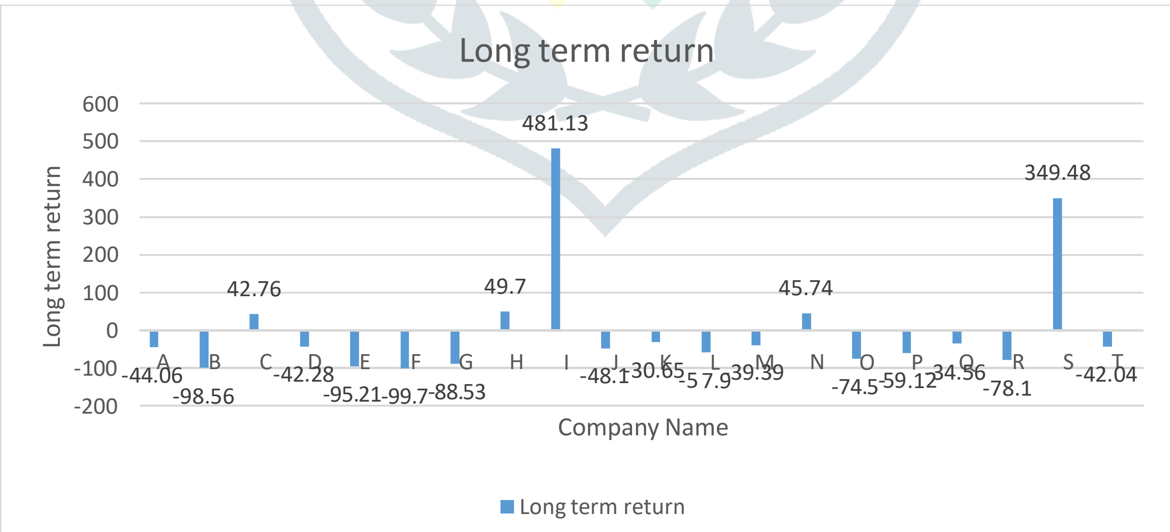
Short term return(2015) $\frac{P-Po}{Po}*100$

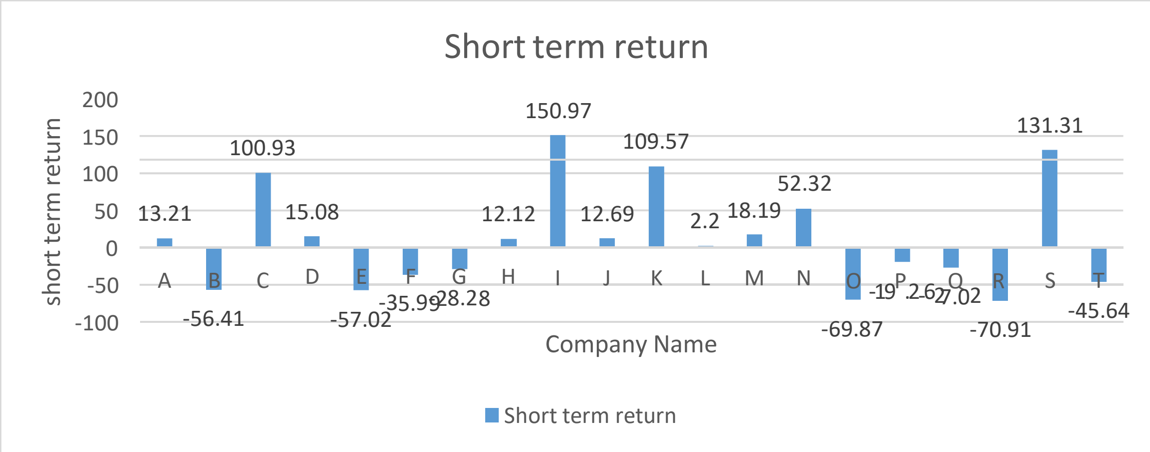
$$\frac{332.05-293.3}{293.3}*100 = 13.21$$

Long term return time period is 5Years

Short tern return time period is 2Years

Company's name	Long term return	Short term return
VRL Logistics (A)	-44.06	13.21
Imagicca World (B)	-98.56	-56.41
PNC Infratech (C)	42.76	100.93
Prabhat Dairy (D)	-42.28	15.08
Inox Wind (E)	-95.21	-57.02
Ortel Comm (F)	-99.70	-35.99
UFO Moviez (G)	-88.53	-28.28
ICICI Prudentia (H)	49.70	12.12
L&T Infotech (I)	481.13	150.97
SP Apparels (J)	-48.10	12.69
RBL bank (K)	-30.65	109.57
PNB Housing Fin (L)	-57.90	2.20
Quick Heal Tech (M)	-39.39	18.19
GNA Axlex (N)	45.74	52.32
HPL Electric & (O)	-74.50	-69.87
Music Broadcast (P)	-59.12	-19.26
Shankara Buildi (Q)	-34.56	-27.02
CL Educate (R)	-78.10	-70.91
Avenue Supermar (S)	349.48	131.31
BSE LTD (T)	-42.04	-45.64





Summary of Findings

- I had found that L and T Infotech long term return is high i.e., 481.13 when compared to other company. And L and T Infotech short term return is high i.e., 150.97 when compared to other company.
- RBL Bank has the lowest long term return i.e., -30.65 when compared to other company. And Music Broadcast has the lowest short term return i.e., -19.26 when compared to other company
- Returns is found low in the year 2020-2021 because of the current covid pandemic situation.

Suggestions

- The investment in IPO can prove too risky because the investor doesn't know anything about the company because it is listed first time in the market so its performance cannot be measure.
- On the other hand, it can be said that the higher the risk higher the returns earned. So it is said that the though risky if investment is done it can give higher returns as well.
- Primary market is more volatile than the secondary market because all the companies are listed for the first time in market so nothing can be said about its performance.
- The investment done in the securities by the investors should be done on the basis of the fundamental analysis but not by the image of the company.

Conclusions

In my study I have found that if the investor invests in Reputated or MNC company then they may get amount of returns when compared to if they invest in less Reputated.

In my study I have found that Long term return is low because of the current covid pandemic situation.

I would prefer the investor to invest in short term investment as per my study.

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