



An Analytical Study on the Impact of IPO on Indian Economy

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Abstract:

The present study is to analyze the impact of IPO on Indian economy and to evaluate the contributions of Indian IPO market to the economic growth of the country. The study considered 10 years data from 2010-11 to 2020-21. The study identifies a weak correlation between the amount mobilized through IPOs and the GDP values of India. The results of t-test concludes that amount raised through IPOs is not contributing to the GDP growth of India. The study recommends the small investors to take their IPO related investment decisions based on the fundamentals and business prospects of the issuer company and exercise caution while investing in IPOs. The Government may offer some concessions or exemptions for the companies approaching IPO market from Central India and Eastern India regions. The study recommends SEBI to review, monitor and revise the regulations of new issue/IPO market very frequently which in turn may help in bringing more transparency and efficiency in the IPO market.

Key words: Initial Public offer, Economic development

INTRODUCTION

Initial public offering (IPO) is a process through which a private company can go public by selling its stocks to general public. The company can be a newly floated young company or an existing old company which decides to get listed its stock on a recognized stock exchange and therefore goes public. An IPO helps companies to raise equity capital through issue of new shares to the public.

The IPO market in India has been growing significantly post liberalization of the Indian economy during early 1990s.

The Securities and Exchange Board of India (SEBI) was established by the Central Government in the year 1992 for the purpose of regulating the capital market. SEBI was given the authority to monitor and regulating the activities of IPO market and its participants such as lead manager, underwriters, portfolio managers, registrars to the issue and bankers to the issue e

Need for the study:

India is a developing country which provides several opportunities to the corporate entities to take part in growth story of the economy. However, many companies cannot manage to raise the required funds from the debt market and financial institutions. Hence they approach primary market through issue of an IPO. Therefore, there has been a significant activity in the IPO market of India during the last two decades backed by liberalization policies of the Government. It is interesting to note that there has been a limited research and somewhat outdated information on the trends, growth and performance of IPO market of India. The present study is taken up to fill the identified research gaps.

Importance of the study:

The study has a multi-dimensional significance. The outcomes of the study can help regulatory authorities to formulate suitable and efficient regulations in relation to IPO market. The study findings can provide inputs to the Government to formulate efficient policies towards IPO market. The outcomes of the study helps investors in understanding the dynamics of IPO market and thereby take rational decisions in relation to investments in IPO market. The study provides basis to conduct further research in the same or connected areas. The study also provides useful inputs to the corporate entities which are planning to enter IPO market.

REVIEW OF LITERATURE

Ajay Yadav and Sweta Goel (2019) have conducted research on underpricing of IPOs with particular reference to the Indian IPO market.

Archana, H.N. and Srilakshmi, D. (2019) conducted an empirical study on the initial listing performance of IPOs in India. The researchers stated that initial listing performance of IPOs can be impacted by several important factors such as offer price, issue size, and the sector in which the company gone for IPO operates etc. The authors found out that a significant relationship existed between initial listing performance of IPOs and variations in offer prices.

Iqbal Thonse Hawaldar, Naveen Kumar, K.R., Mallikarjunappa, T. (2018) The authors concluded that the short-run post-listing performance of IPOs considering three months return computed based on the closing price of listing day turned negative and also significant.

Rekha Handa and Balwinder Singh (2017) Their study revealed that promoter ownership works as an effective signal to the investors in relation to the performance of the said IPO. on qualitative parameters in

their research rather than quantitative parameters which may otherwise enable the researchers to perform inferential statistical analysis which facilitates formulation of efficient conclusions and recommendations.

Research Methodology

I. Objectives of the Study:

1. To analyze the trends in the Indian IPO market.
2. To evaluate the contributions of Indian IPO market for economic growth of the country.

II. Data collection methods:

. The nature and objectives of the proposed study significantly require secondary data which is collected from articles/papers published in reputed and peer reviewed journals, different websites including SEBI, trading economics etc., magazines, technical reports, periodicals and newspapers.

III. Sample Size:

10 years data (i.e., from 2010-11 to 2020-21) is selected as sample size.

IV. Limitations of the study:

- 1) The study is significantly based on the secondary data collected from different sources.
- 2) The study is subject to the limitations of different statistical tools and techniques applied for analytical purposes in this study.
- 3) The study considered the data of only 10 years.

DATA ANALYSIS AND INTERPRETATION

The data is collected based on the objectives of the present study. The collected data is analyzed using the appropriate statistical tools and techniques.

Following table depicts the data related to number of issues and the amount mobilized through IPOs and rights issues in India during the period 2010-11 to 2019-2020.

Number of issues (IPO + Rights) and amount mobilized

Year	Total	
	No. of issues	Amount (₹ crore)
2010-11	79	52,492.75
2011-12	50	16,477.68
2012-13	45	11,985.62

2013-14	56	12,067.87
2014-15	61	9,434.04
2015-16	84	26,431.44
2016-17	118	32,483.37
2017-18	212	99,764.95
2018-19	145	23,721.85
2019-20	76	76,965
2020-21	71	31,021

To understand the relationship between amount raised through IPOs and the GDP of India, Karl Pearson's Co-efficient of correlation is computed and the results are presented in the table below.

Pearson's Co-efficient of Correlation

between amount raised through IPOs and GDP of India

	<i>Amount raised through IPOs</i>	<i>GDP of India</i>
<i>Amount raised through IPOs</i>	1	
<i>GDP of India</i>	0.371758	1

The above table indicates a weak positive relationship between the two variables. However to understand the significance of relationship and to analyze if the amount raised through IPOs is contributing for the growth of India' GDP t-test for correlation is applied.

Hypothesis: Amount raised through IPOs is not contributing to the growth in GDP of India.

Karl Pearson's Coefficient of Correlation: 0.3717

Null Hypothesis: The correlation does not differ significantly from zero.

Conclusion: Since the null hypothesis is accepted and therefore it can be concluded that the amount raised through IPOs is not contributing to the GDP growth of India.

Region wise distribution of number of issues and amount raised

Year	Northern		Eastern		Western		Southern		Central	
		Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)
2010-11	15	14,705.71	9	18,832.74	37	12,516.68	18	6,437.62	-	-
2011-12	9	7,354.88	3	126.95	21	5,720.50	14	3,103.93	3	171.60
2012-13	11	5,311.09	2	184.65	24	6,190.08	8	299.79	-	-

2013-14	16	7,916.58	8	470.88	26	3,306.09	5	348.55	1	25.78
2014-15	12	622.36	5	142.10	32	6,793.12	11	1,876.00	1	0.46
2015-16	13	5,806.67	2	6.56	51	16,059.19	16	4,509.05	2	49.98
2016-17	16	6,278.38	5	80.24	79	18,711.22	14	6,728.04	4	685.49
2017-18	33	7,525.23	9	6,446.02	133	73,399.40	23	11,663.57	14	730.73
2018-19	32	4,922.21	8	681.66	87	15,753.24	12	2,225.14	6	139.60
2019-20	14	28,756.57	2	1,503.49	41	30,840.30	5	1,712.52	-	-
2020-21	13	5,806.67	2	6.56	51	16,059.19	16	4,509.05	2	49.98

Chi-square analysis:

To check if all the regions are equally contributing to the number of IPOs in India and to investigate whether the number of issues depend on the region of India a hypothesis is tested using Chi-square test of independence and results are presented below.

Null hypothesis (H₀): No. of issues do not depend on the region of India.

Alternative hypothesis (H₁): No. of issues depend on the region of India.

Significance level: 5% Chi-square value: 70.493 Degrees of freedom: 36 P-value: 0.00051301

Decision: Since the P-value 0.000513 is very much less than the significance level of 0.05 therefore the null hypothesis is rejected.

BSE Sensex Values for the period 2010-11 to 2020-21

Year	BSE Sensex Values
2010-11	19,135.96
2011-12	17,318.81
2012-13	19,504.18
2013-14	22,417.80
2014-15	27,011.31
2015-16	25,606.62
2016-17	29,918.40
2017-18	35,160.36
2018-19	39,031.55

2019-20	33,717.62
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According to the data available in the above table, except for the years 2011-12 and 2015-16 the BSE Sensex values have been showing significant increase for the period under observation which may have a positive impact on the new issue/IPO market. On an overall basis, the long-term trend in the BSE Sensex values is showing a significant increasing trend.

BSE Sensex Values and Number of issues in IPO market

Year	BSE Sensex Values	No. of issues
2010-11	19,135.96	79
2011-12	17,318.81	50
2012-13	19,504.18	45
2013-14	22,417.80	56
2014-15	27,011.31	61
2015-16	25,606.62	84
2016-17	29,918.40	118
2017-18	35,160.36	212
2018-19	39,031.55	145

To understand the relationship between these two variables Karl Pearson's Co-efficient of Correlation is calculated and the results are shown in the table below.

Karl Pearson's Co-efficient of Correlation between

BSE Sensex values and No. of issues

	<i>BSE Sensex Values</i>	<i>Number of issues</i>
<i>BSE Sensex Values</i>	1	
<i>Number of issues</i>	0.748213	1

Hypothesis: Performance of secondary market do not impact the number of issues in primary/IPO market of India.

Karl Pearson's Coefficient of Correlation: 0.748

Null Hypothesis: There is no relationship between the two variables (i.e. BSE Sensex Values and Number of issues)

Significance level: 5% Degrees of freedom: 8 Calculated value of t: 3.18 Table Value: 2.21

Conclusion: Since the null hypothesis is rejected and therefore it can be concluded that the high performance of secondary market can have positive impact on the performance primary market.

CONCLUSIONS

- The IPO market of India has been growing in a significant way during the post-liberalization era and IPO has become one of the most preferred methods for companies to raise capital for their development projects and also for pursuing their growth strategies.
- The Central Government established Securities and Exchange Board of India (SEBI) in the year 1992 and the authority to SEBI formulate and implement regulations in relation to primary markets including IPO market.
- The study finds out that there different participants in an IPO including the Issuer Company, lead managers, underwriters, and registrars to the issue, bankers to the issue, portfolio managers, stock brokers, marketers, stock exchanges, regulatory authorities and investors.

RECOMMENDATIONS:

- Pricing is one of the key aspects in the process of IPO. Although book-building helps the issuer companies in price discovery, the study recommends that the regulations may reviewed and/or revised to ensure the significant involvement of individual and/or retail investors so that their interests are protected from unreasonable pricing.
- The study recommends the review and/or revision of the applicable regulations in relation to different participants in the IPO market so that more transparency can be ensured which in turn helps in boosting investor confidence.
- The study identifies a weak relationship/correlation between GDP of India and amount mobilized through IPOs in India and therefore it is recommended that the small investors may take their investment decisions related to IPOs based on the fundamentals and business prospects of the issuer company.
- The issuer companies may float their IPOs when the secondary market performs well so that their IPOs can be successful.
- Majority of the IPOs are floated in the market with premium pricing and hence it is recommended that the small investors have to apply rationality while investing in IPOs

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