



PERFORMANCE OF INDIAN IPOs DURING THE PANDEMIC PERIOD BASED ON NIFTY SECTORAL INDICES BASED CLASSIFICATION

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INTRODUCTION

From the time of opening up of the Indian economy in 1991, the Indian IPOs have witnessed different kinds of reforms, changes in the policy, technological advancements and restructuring. As a result, the Indian IPO market has been booming tremendously as the number of companies going public and issuing equity shares in the capital market have increased rapidly. But during the Covid 19 Pandemic the Indian primary market of IPO has witnessed a different situation. Once the pandemic started, for expansion, diversification, financing their working capital needs, purchasing an asset, debt reconstruction etc, the Indian industry has been pushed to the primary market.

This has led the IPOs to increase in its number and size. This growth pattern offers the researchers to analyse the market and to study the performance of the new issues in the primary market. Underpricing has been a phenomenon which attracts the investors as well as the underwriters towards the primary market. The primary market performance of the IPOs is revealed by its underpricing or overpricing. The study uses this method to analyse the performance of the same.

The National Stock Exchange (NSE) follows Sectoral Indices classifying basic industries under different sectors. The study classifies the new issues based on these sectors and analyses the IPOs for its performance.

STATEMENT OF THE PROBLEM

Return plays a vital role for the investors who undertake risk in the primary and secondary market. When valid information is available, the investors are able to risk themselves based on the past performance of the market data.

Keeping this in mind this study tries to undertake the performance of the IPOs in the primary market based on the Nifty Sectoral Indices based classification in the secondary market. 'Which Sectoral Indices based IPOs have performed well during the pandemic period and Is there any consistency among the sectors in its performance' have been analyzed in this study.

REVIEW OF LITERATURE

Sharif Mazumder, Pritam Saha (2021). This paper brings out the relationship between COVID-19 related fear and short-term IPO performance. Though the average market-adjusted initial return of IPOs in the year 2020 is higher than that of the last four decades, it decreases if fear of pandemic increases. The fear factor during the pandemic, how it has affected the return on the issuing date of the IPO. This paper also studies the performance IPO after the IPO date. The results show that the performance of IPO firms is more sensitive to the fear of the pandemic than the performance of similar existing firms.

Khan, Mohammed et. al. (2021). This study evaluates the value of share premium and pricing on listing day, assess progressive growth of IPO return. Further the study compares short-term performance with the long-term performance of IPO returns. The study found that return on IPO fluctuating and the IPOs traded on the stock exchange are found to be promising in long term when compared to short term period. It is also found that the companies that have overpriced issue price have failed to grow after the IPO issue. It correlates to the fact that holding investment for a longer period provides an opportunity to earn higher returns.

Manu, K.S., and Saini, C. (2020). This study analyses the post-Initial Public Officer (IPO) performance of various companies that have gone public in 2017 using event study methodology. The study also tries to determine whether these IPOs were underpriced in short run and identifies various factors that influence the movement of such IPOs in the short run. The study concludes that about 70 per cent of the selected IPOs are underpriced in short run and the movement of these IPOs in short run is not influenced by the age of the company, issue size of the IPO, ownership sector and the promoter's holdings after the issue. It concludes that underpricing is associated with larger reductions in borrowing costs for the IPO firm after going public and so the loss due to IPO underpricing could be compensated by benefits of lower borrowing costs.

Poornima, S., Haji, A.J., and Deepha, B. (2016). This study aims at analysing the performance of IPO both in primary market and secondary market. 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. It concludes based on the examples taken from Indian market that IPO stocks are a good long term investment instruments where they can be subscribed/bought in the primary market and held for stipulated period in the secondary market to maximise the profits and not merely a speculative opportunity to earn booming profits.

Anthony Saunders (1990). This paper presents various reasons for the underpricing of initial public offerings. It clearly brings out that new issues in the capital market are underpriced on average. That is the price of firms' shares offered to the public for the first time are on average set below the prices investors appear willing to pay when the stocks start trading in the secondary market. The argument depends upon the existence of a group of investors whose information is superior to that of the firm as well as that of all other investors. The offering firm must price the shares at a discount in order to guarantee that the uninformed investors purchase the issue.

OBJECTIVES OF THE STUDY

The main objective of the study is to analyze the Indian industry's trend in coming out with IPOs during the time of Covid 19 pandemic. Keeping the above as the base, the present study has been undertaken with the following objectives:

1. To find out the short period performance of Indian IPOs during the pandemic
2. To find out whether the IPOs are underpriced or overpriced or fairly priced during the pandemic period

- To identify which Nifty Sectoral Indices based IPOs have performed well during the pandemic period and to analyze their consistency

RESEARCH METHODOLOGY

Selection of IPO: Two years IPOs have selected during the pandemic period of 2020 and 2021. All the IPOs issued during the period which were listed in the NSE were taken for the study.

Classification of IPOs: 'Methodology document for equity indices' dated June 2022 has been followed for the Nifty Sectoral Indices based classification.

Sources of Data: The IPOs details have been taken from official website of National stock exchange (www.nseindia.com). The website www.chittorgarh.com (Indian IPO investment portal) was used to get the details pertaining to IPOs. The daily data of market index, that is, Nifty 50 were collected from NSE website.

The study uses the following measures for analysis of the data:

The following measures are used in this study to analyse the performance of the Indian IPOs that were listed in the NSE during the pandemic period.

- $PMR = [(P_1 - OP) / OP] \times 100$
- $SMR = [(P_2 - P_1) / P_1] \times 100$
- $TR = [(P_2 - OP) / OP] \times 100$
- $R = [(P_2 - OP) / OP] \times 100$
- $R_m = [(I_1 - I_0) / I_0] \times 100$

PMR = Primary Market Return

SMR = Secondary Market Return

TR = Total Return

R = Raw Return

R_m = Return on the Market Portfolio

Where,

P_1 = Price observed at the beginning of the first trading day

P_2 = Price observed at the end of the first trading day

OP = Issue Price of the IPO

I_1 = Level of the general market share index at the time of listing (first day, month)

I_0 = Level of the market share index at the time offer is announced

The Excess market or Risk adjusted Market initial return (EX) can be calculated as

$$EX = R - R_m$$

When EX is positive then it implies that the IPO is underpriced

When EX is negative then it implies that the IPO is overpriced

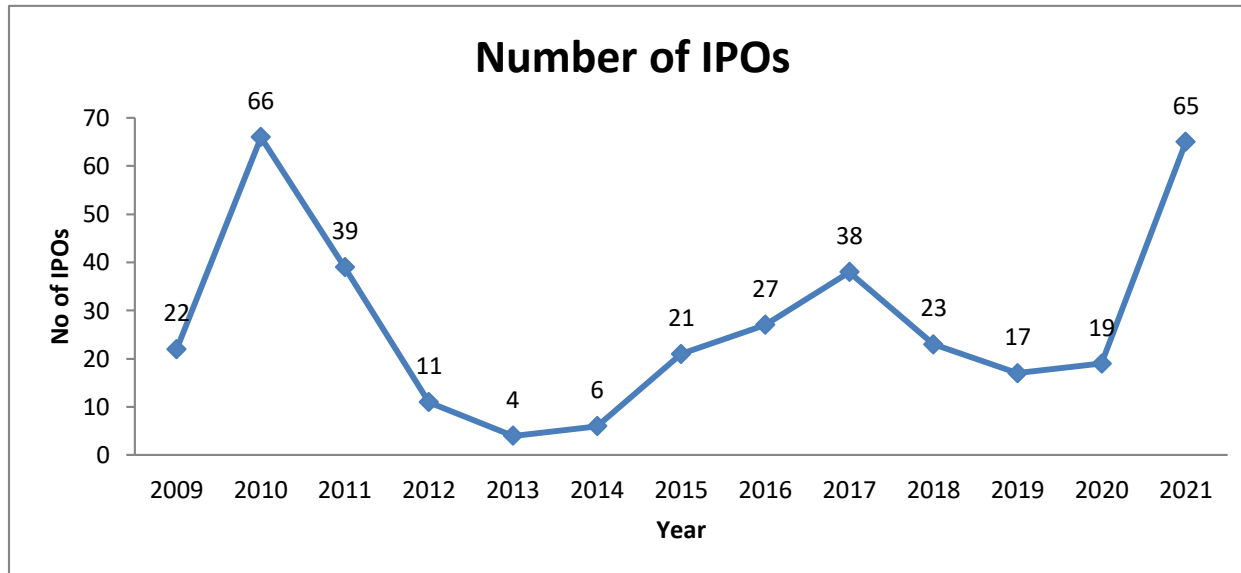
When EX is zero then it implies that the IPO is fairly priced.

The need for calculating the market adjusted return while analyzing the performance of the IPO is that the time lag between the setting of the offer Price and the beginning of trading on an exchange (anywhere from one day to two weeks or more, the price observed in the market in the first day of trading may be high or low

relative to the offer price simply because the stock market as a whole has risen or fallen over this period. Thus in analyzing underpricing, researchers need to control the performance of the stock market in general.

ANALYSIS AND INTERPRETATION

The following tables and figures bring out the IPOS growth in terms of number of new issues and IPOs size in terms capital raised through it and IPOs performance that were issued during the pandemic period of 2021-2022. These have been further classified based on Nifty's Various Sectors.

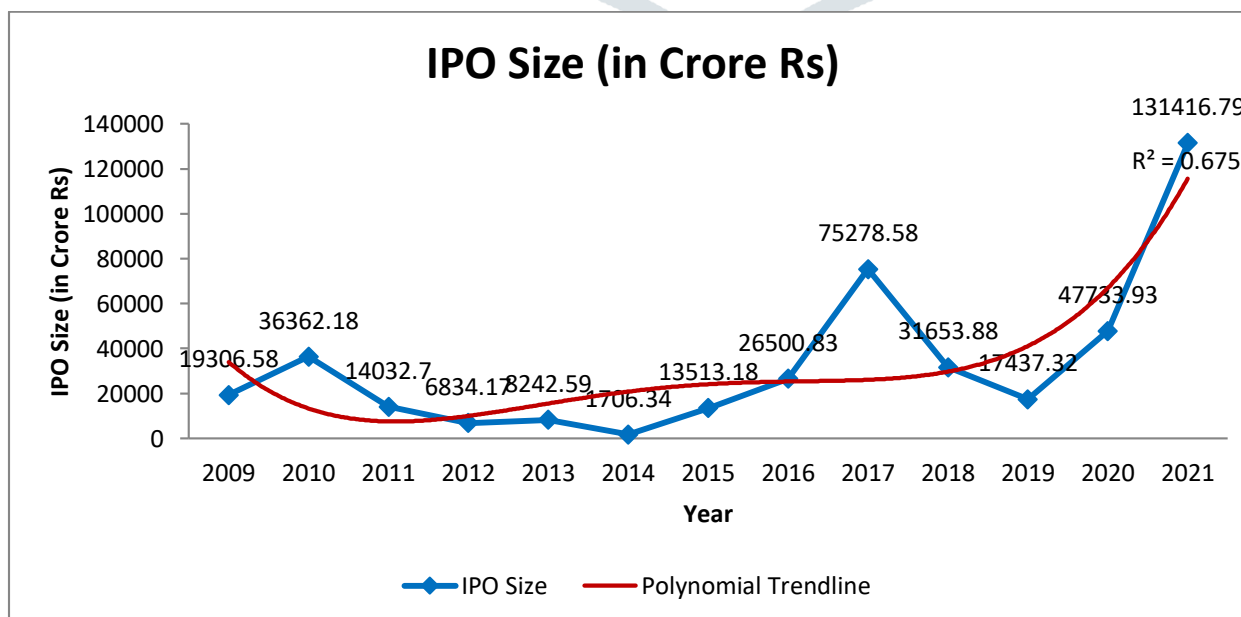


Graph 1: Number of Indian IPOs issued during the year 2009-2021.

Source: Researcher's own Calculation.

Graph 1 clearly brings out the fact that during the time of pandemic that is year 2020 and 2021 the number of IPOs have gone up manifold in comparison with the previous years.

Graph 2 vividly brings out how the IPO market is growing consistently. During the pandemic year the IPOs' size has increased manifold and the year 2021 though was a pandemic year, was the blockbuster year for IPOs as 65 companies have raised Rs 1,31,416.79 crore through equity share market. All along the IPO history year 2021 has a significant place because of the capital raised through IPOs.



Graph 2: Size of the Indian IPOs issued during the year 2009-2021.

Source: Researcher's own Calculation.

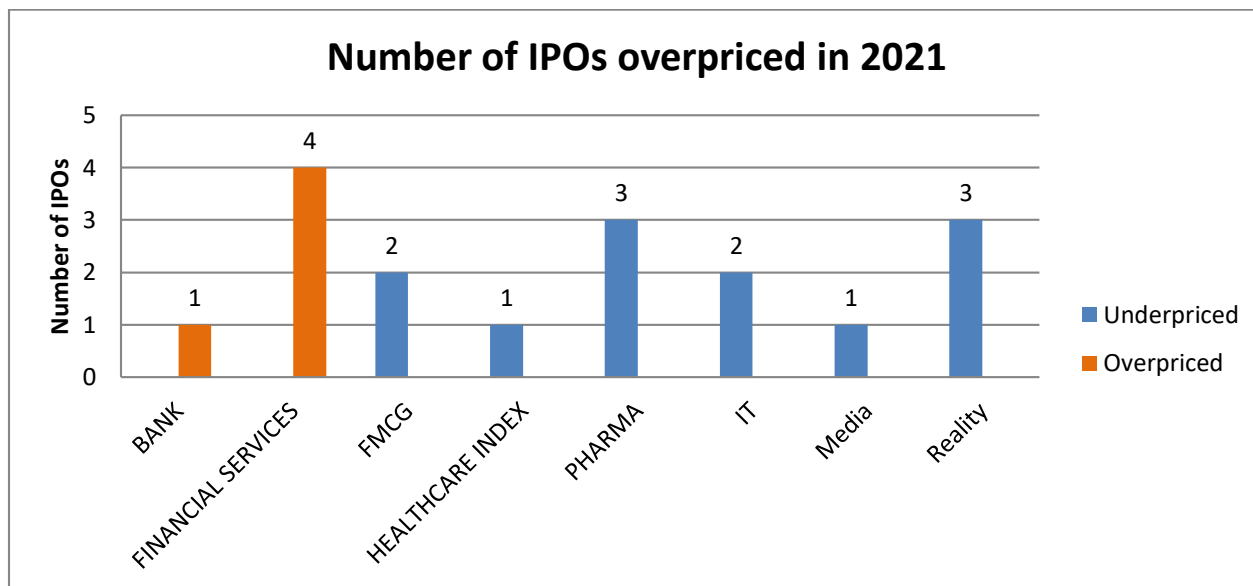
Polynomial trend line explains the size of the IPOs trend. Its R^2 value is 0.675 which depicts that the trend line drawn describes nearly 67% of all the variations around the mean. Its upward movement during the pandemic also is clearly portrayed.

Table 1 brings out clearly that out of 17 IPOs in the year 2021, 5 IPOs are overpriced and the remaining 12 IPOs are underpriced. It means that along with the issuing firms' direct cost of going public the underpriced 12 issuing firms have borne an additional indirect new issue cost in the form of underpricing. This also means that the investors in these underpriced IPOs have gained a primary market return by investing in these IPOs.

Table: 1 Nifty Sectorial based classification of IPOs in 2021 and their performance.

S. NO	IPO Name	Nifty Based Sector	PMR (in %)	SMR on Day 1 (in %)	Risk adjusted Market Return (in %)	Performance
1.	Yes Bank Ltd IPO	BANK	2.50	0.00	-2.11	Overpriced
2.	Equitas Small Finance Bank Ltd IPO	FINANCIAL SERVICES	-6.06	5.65	-10.04	Overpriced
3.	UTI Asset Management Company Ltd IPO	FINANCIAL SERVICES	-11.51	-2.78	-19.91	Overpriced
4.	Angel One Ltd IPO	FINANCIAL SERVICES	-10.13	0.31	-12.89	Overpriced
5.	SBI Cards and Payment Services Ltd IPO	FINANCIAL SERVICES	-12.85	3.83	-8.47	Overpriced
6.	Mrs. Bectors Food Specialities Limited IPO	FMCG	73.96	18.87	105.47	Underpriced
7.	Burger King India Limited IPO	FMCG	92.25	19.98	127.39	Underpriced
8.	Antony Waste Handling Cell Limited IPO	HEALTHCARE INDEX	36.51	-5.29	57.07	Underpriced
9.	Gland Pharma Limited IPO	PHARMA	13.40	7.02	18.27	Underpriced
10.	ChemconSpeciality Chemicals Limited IPO	PHARMA	114.99	-19.99	70.54	Underpriced
11.	Rossari Biotech Ltd IPO	PHARMA	57.65	10.80	70.99	Underpriced
12.	Computer Age Management Services Ltd IPO	IT	23.41	-7.67	12.49	Underpriced
13.	Happiest Minds Technologies Ltd IPO	IT	111.45	5.70	122.10	Underpriced
14.	Route Mobile Ltd IPO	MEDIA	102.29	-8.04	86.27	Underpriced
15.	Likhitha Infrastructure Ltd IPO	REALTY	8.42	5.00	9.91	Underpriced
16.	Mazagon Dock Shipbuilders Limited IPO	REALTY	49.14	-20.00	13.37	Underpriced
17.	Mindspace Business Parks REIT	REALTY	10.55	-0.04	8.94	Underpriced

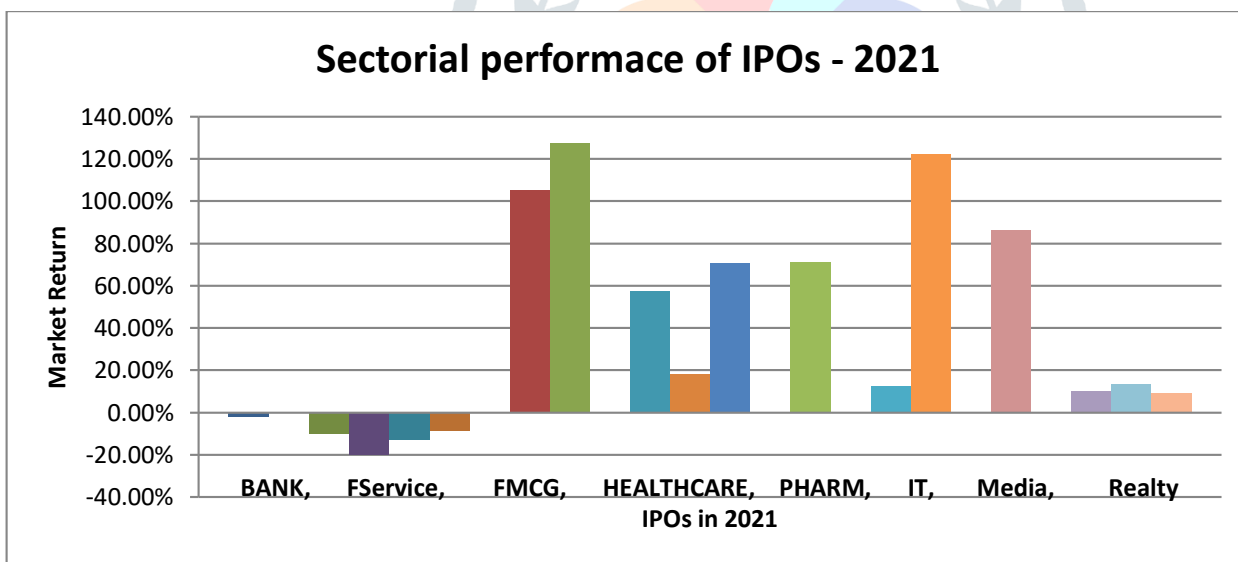
Source: Researcher's own Calculation.



Graph 3: Nifty Sectorial based classification of IPOs in 2021 and their performance.

Source: Researcher’s own Calculation.

Table 1 and Graph 3 reveal clearly the performance of the nifty based sectorial classification of the IPOs. 29% of the IPOs are overpriced while 71% of the IPOs are underpriced. The IPOs of banking sector and the financial services sectors have been over priced completely. All the 5 IPOs of these sectors have a shown a negative risk adjusted market return and so all those who invested in these IPOs have incurred a loss.



Graph 4: Nifty Sectorial based classification of IPOs in 2021 and their performance.

Source: Researcher’s own Calculation.

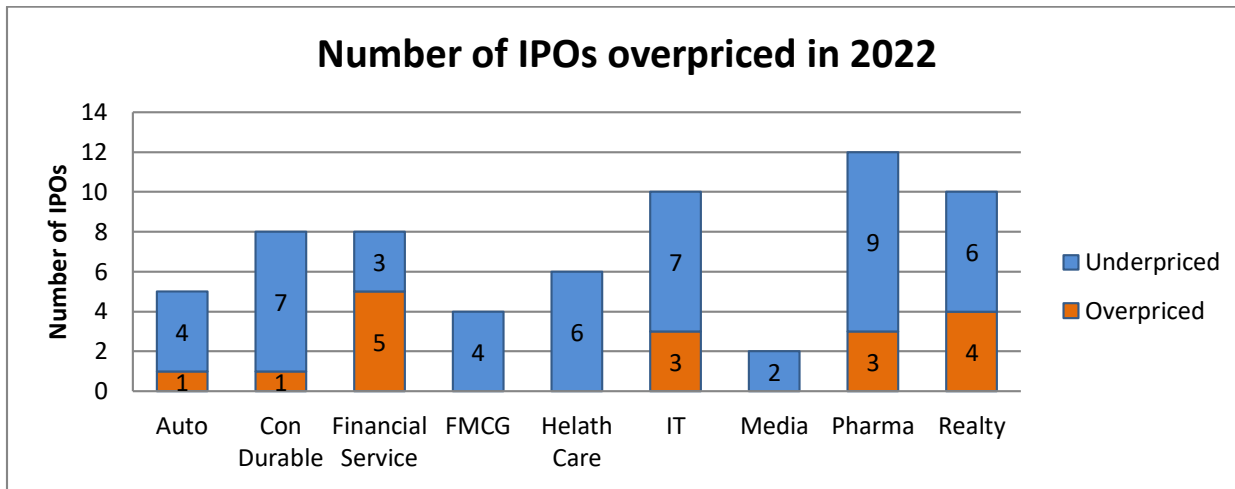
Graph 4 shows that the investors who had invested in the IPOs of Banking and Financial services IPOs have incurred loss while all other IPO investors have made profit at various levels. The IPOs of FMCG sector have been underpriced to the tune of 127% and 105%. One of the IT sector IPOs also has been underpriced to the tune of 122%. IT and media sector based IPOs also been underpriced to the tune of 100% thus making good return to the IPO investors during the pandemic period. The effect of pandemic is seen very clearly in the returns of FMCG IPOs making good return.

Table: 2 Nifty Sectorial based classification of IPOs in 2022 and their performance.

S. NO	IPO Name	Nifty Based Sector	PMR (in %)	SMR on Day 1 (in %)	Risk adjusted Market Return (in %)	Performance
1	S.J.S. Enterprises Limited IPO	AUTO	-0.37	-5.58	-6.92	Overpriced
2	Sansera Engineering Limited IPO	AUTO	9.05	0.91	7.39	Underpriced
3	Rolex Rings Limited IPO	AUTO	38.78	-6.60	26.24	Underpriced
4	Sona BLW Precision Forgings Limited IPO	AUTO	3.92	19.99%	24.83	Underpriced
5	Craftsman Automation Limited IPO	AUTO	-9.40	6.15	0.40	Underpriced
6	HP Adhesives Limited IPO	CON.DU.IN	16.42	5.00	23.04	Underpriced
7	Metro Brands Limited IPO	CON.DU.IN	-12.80	13.20	1.99	Underpriced
8	Tega Industries Limited IPO	CON.DU.IN	66.23	-3.65	59.00	Underpriced
9	Go Fashion (India) Limited IPO	CON.DU.IN	90.72	-4.82	83.80	Underpriced
10	FSN E-Commerce Ventures Limited IPO	CON.DU.IN	77.87	10.28	95.26	Underpriced
11	KalyanJewellers India Limited IPO	CON.DU.IN	-15.06	1.89	-10.67	Overpriced
12	Stove Kraft Limited IPO	CON.DU.IN	21.30	-4.51	11.24	Underpriced
13	Indigo Paints Limited IPO	CON.DU.IN	75.00	19.60	109.28	Underpriced
14	AnandRathi Wealth Limited IPO	FINANCIAL SERVICES	9.46	-3.08	6.53	Underpriced

15	Star Health and Allied Insurance Com Ltd IPO	FINANCIAL SERVICES	-5.69	6.84	-2.25	Overpriced
16	PB Fintech Limited IPO	FINANCIAL SERVICES	17.35	4.60	21.75	Underpriced
17	Fino Payments Bank Limited IPO	FINANCIAL SERVICES	-5.03	-0.50	-7.88	Overpriced
18	Aditya Birla Sun Life AMC Ltd IPO	FINANCIAL SERVICES	0.00	-1.73	-3.04	Overpriced
19	Aptus Value Housing Finance India Ltd IPO	FINANCIAL SERVICES	-6.53	5.02	-3.91	Overpriced
20	Suryoday Small Finance Bank Ltd IPO	FINANCIAL SERVICES	-3.93	-5.73	-7.97	Overpriced
21	Home First Finance Company India Ltd. IPO	FINANCIAL SERVICES	18.18	-13.84	0.47	Underpriced
22	Sapphire Foods India Limited IPO	FMCG	11.10	-7.24	4.63	Underpriced
23	Devyani International Limited IPO	FMCG	56.67	-12.52	35.22	Underpriced
24	Dodla Dairy Limited IPO	FMCG	23.36	15.36	42.01	Underpriced
25	Barbeque Nation Hospitality Limited IPO	FMCG	-1.60	20.00	16.26	Underpriced
26	Medplus Health Services Limited IPO	HEALTHCARE INDEX	27.51	10.43	42.54	Underpriced
27	Tarsons Products Limited IPO	HEALTHCARE INDEX	5.74	20.00	33.25	Underpriced
28	Vijaya Diagnostic Centre Limited IPO	HEALTHCARE INDEX	2.13	14.20	14.88	Underpriced
29	Krsnaa Diagnostics Limited IPO	HEALTHCARE INDEX	7.44	-3.34	2.02	Underpriced
30	Krishna Institute of Medical Sciences Limited IPO	HEALTHCARE INDEX	22.29	-1.29	20.42	Underpriced
31	Nureca Limited IPO	HEALTHCARE INDEX	58.74	4.99	68.10	Underpriced
32	CMS Info Systems Limited IPO	IT	1.16	8.65	6.55	Underpriced
33	Data Patterns (India) Limited IPO	IT	47.69	-12.63	30.92	Underpriced
34	C.E. Info systems limited IPO	IT	53.05	-11.79	39.45	Underpriced
35	Rategain Travel Technologies Limited IPO	IT	-14.16	-6.66	-18.75	Overpriced
36	Latent View Analytics Limited IPO	IT	169.04	-7.81	150.96	Underpriced
37	One 97 Communications Limited IPO	IT	-9.07	-19.99	-25.54	Overpriced
38	CarTrade Tech Limited IPO	IT	-1.11	-6.24	-8.46	Overpriced
39	Zomato Limited IPO	IT	51.32	9.43	65.58	Underpriced
40	Easy Trip Planners Limited IPO	IT	10.16	1.12	12.83	Underpriced
41	RailTel Corporation of India Limited IPO	IT	11.28	16.06	34.55	Underpriced

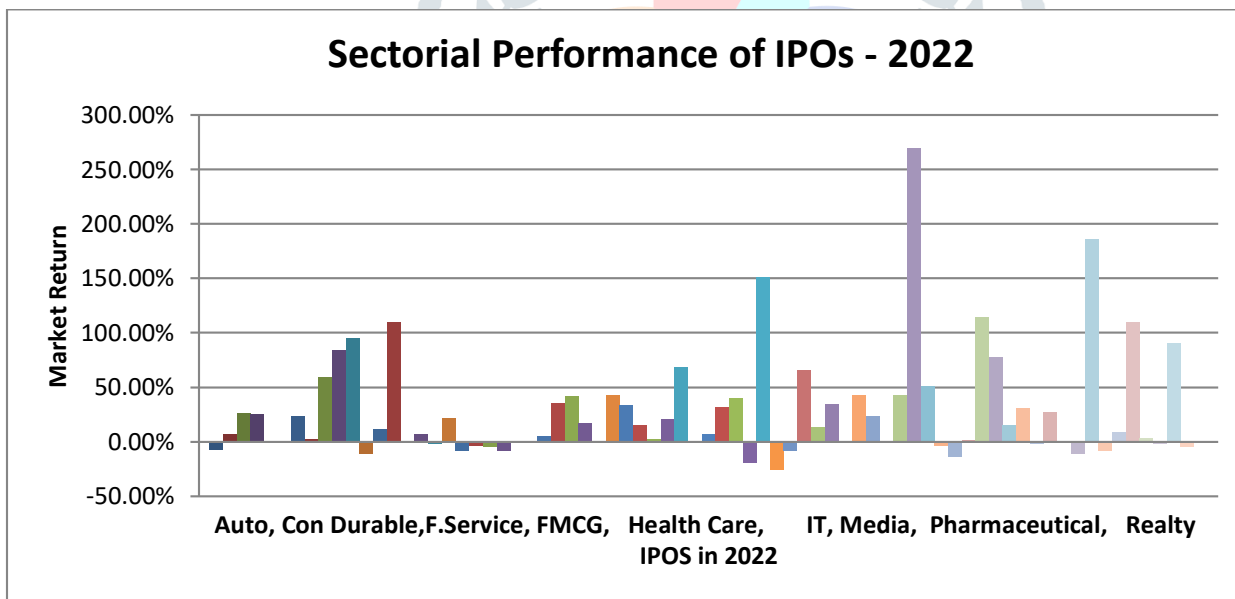
42	Nazara Technologies Limited IPO	MEDIA	79.02	-20.00	42.38	Underpriced
43	ShyamMetalics and Energy Limited IPO	METAL	19.93	2.41	22.96	Underpriced
44	SupriyaLifescience Limited IPO	PHARMA	55.11	-8.15	42.55	Underpriced
45	Sigachi Industries Limited IPO	PHARMA	252.76	5.00	269.41	Underpriced
46	Ami Organics Limited IPO	PHARMA	47.87	3.61	51.46	Underpriced
47	ChemplastSanmar Limited IPO	PHARMA	-2.96	1.89	-3.20	Overpriced
48	Windlas Biotech Limited IPO	PHARMA	-4.57	-7.36	-13.73	Overpriced
49	Glenmark Life Sciences Limited IPO	PHARMA	4.32	-0.39	0.89	Underpriced
50	TatvaChintanPharmaChem Ltd IPO	PHARMA	95.00	9.40	114.24	Underpriced
51	Clean Science and Technology Ltd IPO	PHARMA	98.27	-11.16	76.94	Underpriced
52	India Pesticides Limited IPO	PHARMA	21.62	-4.68	15.00	Underpriced
53	Laxmi Organic Industries Limited IPO	PHARMA	20.15	5.38	30.84	Underpriced
54	AnupamRasayan India Limited IPO	PHARMA	-3.66	-1.65	-1.93	Overpriced
55	Heranba Industries Limited IPO	PHARMA	43.54	-9.75	26.94	Underpriced
56	Shriram Properties Limited IPO	REALTY	-20.34	5.74	-10.61	Overpriced
57	ParasDefence And Space Technologies Limited IPO	REALTY	171.43	5.00	185.17	Underpriced
58	Nuvoco Vistas Corporation Ltd IPO	REALTY	-17.37	12.80	-8.23	Overpriced
59	Exxaro Tiles Limited IPO	REALTY	5.00	4.96	8.37	Underpriced
60	G R Infraprojects Limited IPO	REALTY	103.11	2.75	109.51	Underpriced
61	POWERGRID Infrastructure Investment Trust InvIT	REALTY	4.00	-0.98	2.79	Underpriced
62	Macrotech Developers Limited IPO	REALTY	-9.67	5.50	-1.84	Overpriced
63	MTAR Technologies Limited IPO	REALTY	85.03	1.72	90.33	Underpriced
64	Brookfield India Real Estate Trust REIT	REALTY	0.02	-1.85	-4.59	Overpriced
65	Indian Railway Finance Corporation Limited IPO	REALTY	-3.85	-0.60	0.32	Underpriced



Graph 5: Nifty Sectorial based classification of IPOs in 2021 and their performance.

Source: Researcher’s own Calculation.

Table 2 and Graph 5 reveal that out of the 65 IPOs issued in the year 2022, 17 IPOs are overpriced and 48 IPOs are underpriced amounting to 26% of the IPOs overpriced and 74% of the IPOs underpriced. Among the 17 overpriced IPOs 5 are from the Financial service sector based IPOs. Among the 12 Pharma based IPOs, 9 were underpriced and 3 were overpriced and among the 10 IPOs in the realty sector 4 have been overpriced and 6 have been underpriced. All the IPOs of FMCG, Health care, and Media have been underpriced. During pandemic the number of IPOs in the consumer Durable, Financial Services, IT, Pharma and realty based sectors have increased considerably.



Graph 6: Nifty Sectorial based classification of IPOs in 2022 and their performance.

Source: Researcher’s own Calculation.

Graph 6 depicts that the financial services based IPOs have not yielded good return to the investors during the pandemic. The study clearly reveals that in 2021 all the 4 IPOs were overpriced while the investors in these IPOs incurred loss, in 2022 also out of 8 IPOs 5 were overpriced and the underpriced IPOs also have got the maximum of 21% return only. Pharma sectorial based IPO Sigachi Industries Ltd has given the maximum return with 269% return. The consumer durable, Health care, Pharma, and realty sector based IPOs have been consistently underpriced and have given good return to the IPO investors.

CONCLUSION

The study clearly brings out that during the pandemic year of 2021 and 2022 on an average 72.5% of the IPOs are underpriced. Thus the investors in the primary market stand a chance to gain more than 70%. The investors in the secondary markets also stand a chance to benefit from the underpricing of IPOs. The issuing companies also stand to gain from underpricing as the cost of external finance would be reduced and the goodwill of the company increases.

It is also concluded that the number of IPOs and the size of the IPOs have increased multifold during the pandemic period. IPOs from the sectors of consumer durables, FMCG, Health care, IT and Pharmaceutical have increased considerably. During the pandemic period the Financial services sector based IPOs have in both the years been overpriced and so they have not yielded profit for the IPO investors. FMCG, IT, Pharmaceutical sector based IPOs have most of the time have been underpriced and so they have yielded profit for the IPO investors. During the pandemic it is the pharma sectorial based IPO Sigachi Industries ltd has come with the maximum percentage of IPO return.

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