PERFORMANCE EVALUATION OF IPO'S IN INDIA

Mr. Ravindra[1]

[1]Research Scholar, Department of Management, Gulbarga University, Kalaburagi, Karnataka, India.

Dr. B.M Kanahalli[2]

[2]Professor, Department of Commerce and Management, Gulbarga University,Kalaburagi, Karnataka, India.

ABSTRACT

Initial public offering is a process by which a private company can go public on the sale of its stocks to the 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. The paper examines the performance of Indian IPOs, on listing day, 30th day and 90th day of trading during the period 2011-2015. We report, that there exists underpricing on the listing day. The study further reveals that there exists higher proportion of gains on listing day. However, the IPOs underperformed on 30th and 90th day of trading.

KEYWORDS: *Bear Market, Bull Market, Under Pricing, Overpricing, Offer Price, Bid Price.*

INTRODUCTION

Initial public offering (IPO) or stock market launch is a type of public offering in which shares of a company are usually sold to institutional investors that in turn, sell to the general public, on a securities exchange, for the first time. Through this process, a privately held company transforms into a public company. Initial public offerings are mostly used by companies to raise the expansion of capital, possibly to monetize the investments of early private investors, and to become publicly traded enterprises. A company selling shares is never required to repay the capital to its public investors. After the IPO, when shares trade freely in the open market, money passes between public investors. Although IPO offers many advantages, there are also significant disadvantages, chief among these are the costs associated with the process and the requirement to disclose certain information that could prove helpful to competitors. The IPO process is colloquially known as going public.

Types of Public Issues

1. Book Building Issues
2. Fixed Price Issues

1. Book Building:-

Book building is the process of selling the shares to the public at an acceptable price through merchant bankers. A company can use the book building process to fine tune its prices. Under this, floor price of the offer is mentioned and the merchant banker record the number of offers that he has received and the offer price along with the name of the investor who makes the offer. The allotment is made on the basis of the best bids received up to the requiste number of shares. It is essentially a process of price discovery.

The process of Book Building

- The Issuer who is planning an offer nominates lead merchant banker(s) as 'book runners'.
- The Issuer specifies the number of securities to be issued and the price band for the bids.

- The Issuer also appoints syndicate members with whom orders are to be placed by the investors.
- The syndicate members input the orders into an 'electronic book'. This process is called 'bidding' and is similar to open auction.
- The book normally remains open for a period of 5 days.
- Bids have to be entered within the specified price band.
- Bids can be revised by the bidders before the book closes.
- On the close of the book building period, the book runners evaluate the bids on the basis of the demand at various price levels.
- The book runners and the Issuer decide the final price at which the securities shall be issued.
- Generally, the number of shares are fixed, the issue size gets frozen based on the final price per share.
- Allocation of securities is made to the successful bidders. The rest get refund orders.

2. Fixed Price Issue:-

Under fixed price, the company going public determiners a fixed price at which its shares are offered to investors. The investors know the share price before the cpmpany goes public. Demand from the markets is only known once the issue is closed. To partake on this IPO, the investors must pay the full share price when making the application.

Difference Between Book building and Fixed Price

Issue Type	Offer Price	Demand	Payment	Reservation
Fixed Price	Price at which the securities are offered and would be allotted is made known in advance to the investors	Demand for the securities offered is known only after the closure of the issue	100 % advance payment is required to be made by the investors at the time of application.	50 % of the shares offered are reserved for applications below Rs. 1 lakh and the balance for higher amount applications.
Book Building	A 20 % price band is offered by the issuer within which investors are allowed to bid and the final price is determined by the issuer only after closure of the bidding.	Demand for the securities offered , and at various prices, is available on a real time basis on the BSE website during the bidding period	10 % advance payment is required to be made by the QIBs along with the application, while other categories of investors have to pay 100 % advance along with the application.	50 % of shares offered are reserved for QIBS, 35 % for small investors and the balance for all other investors.

***Source:** Compiled from BSE (Bombay Stock Exchange)*

REVIEW OF LITERATURE

Reviewing the existing literature provides, the researcher with exhaustive information on the previous studies, which helps in finding the research gap and forms the basis for the further studies. It is in this context, the research papers of the various authors have been reviewed for the better understanding of the topic.

1. ***Seshadev Sahoo and Prabina Rajib(2010):*** conducted study on "After Market Pricing Performance of Initial Public Offerings(IPOs):Indian IPO Market 2002-2006" The study focuses on after market performance of IPOs. The study presents fresh evidence on IPO performances i.e., initial day underprice and long run underperformance for a board set of 92 Indian IPOs. They reported that on average, the IPOs are under-priced to the extent of 46.55 percent at the list price. They also found that high initial day return may be due to the over-expectations of the investors.
2. ***Himanshu Puri (2012):*** studied the short-run performance of Indian IPOs, as on the First, Seventh, and thirteenth trading day and he states that IPOs offered positive retunrs on Ist and 7th trading day but subsequently they underperform the market at the end of 30th trading day. He also opines that, investors can make significant positive returns if they go for IPOs and sell them within a period of less than one month.
3. ***K.Hema Divya(2013):*** conducted a study on "performance of Indian IPO's during the financial year 2010-2011." The study focuses on methodology of book –building issue and fixed price issue and factors contributing to the under-pricing or over-pricing of IPO in India. The study concludes that extent of

oversubscription of an IPO will determine the first day gains. The oversubscription will lead to larger first day gains for IPOs.

4. ***Garima Baluja(2013):*** studied the comparative analysis of listing price performance between graded IPOs in India, she concludes that, IPO grading mechanism has no significant difference of listing price performance of different graded IPOs. She opines that listing performance of the companies differs just by chance or may be by some other factors such as subscription level, Age, venture capitalist reputation, IPO size etc.
5. ***Sanjay Sehgal (2013):*** studied 432 new IPO issues for the period april 2001 to December 2001. The paper examined important factors that determine short-run underpricing of initial public offerings (IPOs) and impact of IPOs mispricing on investment banks reputation. The paper concludes that 5 variables i.e. number of times an IPO issue subscribed, number of uses of IPOs proceeds, Listing Delay, Industry PE ratio and dummy for companies representing new economies are positively related to the short run initial return on IPOs, while 4 variables, i.e. company size , investors sentiment , investment banks reputation defined in terms of share in IPO proceeds and dummy for private companies IPOs bear a negative relationship with initial return.
6. ***Sri.Devarajappa S and (Dr.(smt).A.N. Tamragundi(2014):*** Conducted a study on "Post issue Performance of IPOs in India: An Empirical Study". The study focuses on post issue performance of the selected IPOs made during the period from April 2011 to March 2012, and the basis of arriving at issue price. The study concludes that fluctuation depend not only on performance of the company but due to speculations made and external factors.
7. ***Prof.B.Ramesh and Dr.Pournima Dhume (2015):*** Conducted a study on "Performance Analysis of Initial Public offering in Indian Context" the study focuses on Measuring the initial listing performance of IPO for short run, Analyse the price performance of Indian IPOs for the long term, and to examine the extent of under pricing/overpricing of the Indian IPOs. The study concluded that over pricing exists in IPOs listed on NSE in the short as well as long run. The study further states that overpricing is present in short as well as long run. But, is more severe in the long run period i.e. from the day of listing.
8. ***Prof.Sweety Nishant Shah and Prof. Dish Harshadbhai Mehta (2015):*** conducted a study on Initial Performance of IPOs in India: Evidence from_2010 to 2014. The study focussed on listing day performance of 113 IPOS from the period January 2010 to December 2015, listed on National Stock Exchange (NSE) India. They found that, there is, on average, significantly positive returns on the listing day. The market adjusted Abnormal Returns of all sample Initial Public Offers (IPO) companies were found to be 7.19%. They also found that IPOs are initially under-priced.
9. ***Ranjitha.R Dr.Nirmala Joseph (2016):*** Studied the performance of the IPOs during the period 2009 to 2013, The study shows conclusive evidence of initial abnormal returns of a majority of IPOs considered for study. This finding is indicative of the presence of Underpricing of IPOs.
10. **M. Muthu Gopalakrishnan and Paluri Hareesh (2016):** studied the performance of IPOs in Indian market, The study examines the performance of the Indian IPOs listed in National Stock Exchange (NSE) during January 2010 to December 2015. Short run price performance of 126 IPOs that entered into Indian capital market in the study period has been examined on listing day and for a time gap of three days, one week, fifteen days, one month, two months and 3 months .The findings reveal that, there exists under-pricing in the Indian Market in the short run. So it is recommended that the investors can participate in IPOs to get returns in the short run.

STATEMENT OF THE PROBLEM

A good number of investors in the recent times have shown keen interest, investing in Indian IPOs, it is in this context the paper makes an attempt to study the success rate of IPOs and Higer proportion of gains that exists in Indian IPO market for the period 2011 to 2015

THEORETICAL FRAMEWORK

Primary Market:-

Primary market is the market where the companies issue their securities (shares debentures etc.)

for the first time. Primary market is popularly known as New issue Market (NIM). It does not have a physical structure or form. It extends to all the places where the securities of the company are subscribed for the first time.

Secondary Market:-

Secondary market is the market where securities are traded after being initially offered to the public in the primary market and/or listed on stock exchange. In other words it is a market where the existing securities of the companies are traded; it provides liquidity and marketability to the securities which are issued in the primary market.

Offer Price:-

An offering price is the price at which publicly issued securities are made available for purchase by the investment bank underwriting the issue. A security's offering price includes the underwriter's fee and any management fee applicable to the issue.

Bid Price:-

A bid price is the price a buyer is willing to pay for a security. This is one part of the bid with the other being the bid size, which details the amount of shares the investors, is willing to purchase at the bid price.

Bull Market:-

A bull market is a financial market of a group of securities in which prices are rising or are expected to rise. The term "bull market" is most often used to refer to the stock market, but can be applied to anything to anything that is a traded, such as bonds, currencies and commodities. Bull markets are characterized by optimism, investor confidence and expectations that strong results will continue.

Bear Market:-

A market condition in which the prices of securities are falling, and widespread pessimism causes the negative sentiment to be self-sustaining.

Underpricing:-

IPO under-pricing is the increase in stock value from the initial offering price to the first-day closing price. Investors state that under-pricing signals high interest to the market which increases the demand.

Over pricing:-

Overpricing is measured as the difference between the offer or opening price for the IPOs stock and its closing price after the first day of trading scaled by the offer price. When the opening price exceeds the closing price, the IPO is said to be overpriced.

OBJECTIVES OF THE STUDY

The main objectives of study are as under:

1. To find out the number of companies went for IPO during the period 2011 to 2015.
2. To find the success rate of IPO's in Indian Capital Market.
3. To know higher proportions of gains that exist in IPO's during the study period.
4. To study the post-issue IPO performance during the period 2011-2015.
5. To study the number of IPOs Underpriced / Overpriced during the study period.
6. To offer learning lesson to investor class and issuers in the light of our findings.

RESEARCH METHODOLOGY

The paper makes an attempt to evaluate the performance of IPOs in the Indian capital market during the period 2011-2015. In view of this the data regarding number companies went for IPO (Initial Public Offer) during the study period has been collected. The issue price and listing price i.e., closing price on the Listing day of IPO issue has been taken to calculate the proportion of companies with Gain/Loss and attempt has been made to study the number of IPO issues underpriced/ overpriced during the Study period. Further attempt has been done to study the post-issue IPO performance by evaluating the listing day, 30th day, and 90th day performance of the IPOs during the study period.

i. Sample Size

The sample size for the study includes IPOs listed on NSE (National Stock Exchange) during the study period has been collected for the study.

Total number of IPO offered during the study period is 88, due to withdrawal of IPO issues and non-availabilty financial information of IPO Issues only 67 IPO issues are eligible for the study.

ii. Data Collection

The data collected for the study is secondary data. The Secondary data have been collected from two sources. The data regarding number of companies went for IPO during the period 2011 to 2015, their issue price and listing price have been sourced from the website of NSE(National Stock Exchange) i.e. https://www.nseindia.com and data regarding Issue Size, Issue date, Issue type, and Listing day, have been sourced from http://www.chittorgarh.com

iii. Analysis Tools

The paper has been framed using Statistical and Mathematical tools such as, Percentage, Mean and Standard Deviation.

RESULTS AND ANALYSIS

Table-1 Showing Performance of IPOs on the listing day during the Period 2011 To 2015

Listing Year	No of IPOs	No of IPOs underpriced	No. of IPOs overpriced	No Proportion of change (%)	IPOs with positive returns (%)	IPOs companies with Negative returns (%)
2011	30	14	16	--	46	54
2012	09	05	03	01	55	33
2013	03	02	01	--	67	34
2014	04	03	01	--	75	25
2015	21	13	08	--	62	38
Total	**67**	**37**	**29**	-----		

Table 1 shows the performance of IPOs on listing day for the period 2011 to 2015. It is found that 67 IPO offers made during the period 2011 to 2015, of the 67 IPO offers made 37 were found to be underpriced while 29 IPO offers were overpriced and 1 IPO issue sported no propotion of change. It is evident from the analysis that the year 2011 witnessed maximum number of IPO offers, while the year 2013 witnessed lowest IPO offers during the study period. It is found that the year 2015 witnessed highest returns, posting 75% positive returns, followed by the year 2013, 2015 and 2012, respectively posting 67%, 62% and 55% positive gains on the listing day. While, the year 2011 witnessed lowest returns with 46% positive returns on the listing day.

The table reveals that the year 2011 posted 54% negative returns followed by the year 2015, 2013 and 2012, posted negative returns of 38%,34% and 33% respectivey on the listing day. While the year 2014 recorded least negative returns with 25% on the listing day.

Table-2 Showing Listing day Gains of IPOs in Percentage range, during the period 2011 to 2015

Listing Year	Negative	Positive				No Change (%)
		0%-20%	20%-50%	50%-100%	>100%	
2011	55%	16%	16%	13%	Nil	Nil
2012	33%	44%	11%	Nil	Nil	12%
2013	34%	66%	Nil	Nil	Nil	Nil
2014	25%	25%	25%	25%	Nil	Nil
2015	38%	34%	28%	Nil	Nil	Nil

The table 2 shows the listing day gains of IPO in Percentage Range for the period 2011 to 2015. It is revealed from the study, that the 2011 witnessed 30 IPO issues of which 55% gave negative returns on the listing day.However,13% gave positive returns in the range of 50%-100%, and 16% of the issues posted return in the range of 20%-50%, while another 16% of the issue sported gains in the range of 0%-20%. The year 2012 and 2013, witnessed IPO issues with 09 and 3 respectively and posted 33% and 34% negative gains respectively on the listing day. However the year 2012 witnessed 44% positive returns in the range of 0%-20%, and 11% gave positive returns in the range of 20%-50%. IPO issues in year 2013 posted 66% positive returns in the range of 0%-20%.

The table reveals that the year 2014,witnessed 04 IPO issues of which 25% of negative returns, while it posted 25% positive returns in the range of 0%-20% and further the year witnessed 25% positive returns in the range of 20%-50% and 50%-100% respectively. The table also reveals that the year 2015 witnessed 21 IPO issues of which 38% of the offers posted negative returns. while, 34% of the issues posted positive returns in thr range of 0%-20%, and another 28% of the issues posted positive returns in the range of 20%-50%.

Table3 Showing Gains of IPOs on 30th day in Percentage range, during the period 2011 to 2015

Listing Year	Negative	Positive			
		0%-20%	20%-50%	50%-100%	>100%
2011	63	13	3	16	3
2012	34	44	22	Nil	Nil
2013	34	33	33	Nil	Nil
2014	50	Nil	Nil	50	Nil
2015	38	19	38	5	Nil

Table 3 shows One month IPO gains in Percentage Range for the period 2011 to 2015. It is revealed from the study, that the 2011 witnessed 30 IPO issues of which 63% gave negative returns. However,13% gave positive returns in the range of 0%-20%, and 3% of the issues posted return in the range of 20%-50%, while another 16% of the issue sported gains in the range of 50%-100%. The year 2012 and 2013, witnessed IPO issues with 09 and 3 respectively and they repectively posted 34% and 34% negative gains . However the year 2012 witnessed 44% positive returns in the range of 0%-20%, and 22% gave positive returns in the range of 20%-50%. IPO issues in 2013, posted 33% positive returns in the range of 0%-20% and 20%-50%.

The table reveals that the year 2014,witnessed 04 IPO issues of which 50% gave negative returns, while, anthor 50% recorded positive returns in the range of 50%-100%. The table also reveals that the year 2015 witnessed 21 IPO offeres of which 38% of the gave negative returns while, 19% of the issues posted positive returns in the range of 0%-20%, and 38% of the issues posted positive returns in the range of 20%-50%, and another 5% of the returns were in the range of 50%-100%.

Table 4 Showing Gains of IPOs on 90th day in Percentage range, during the period 2011 to 2015

Listing Year	Negative	Positive			
		0%-20%	20%-50%	50%-100%	>100%
2011	67	7	10	10	6
2012	55	34	Nil	Nil	11
2013	34	33	33	Nil	Nil
2014	50	Nil	Nil	25	25
2015	39	5	42	14	Nil

Table 4 shows Three month IPO gains in Percentage Range for the period 2011 to 2015. It is revealed from the study, that the 2011 witnessed 30 IPO issues of which 67% gave negative returns. However,7% gave positive returns in the range of 0%-20%, and 10% of the issues posted return in the range of 20%-50%, while another 10% of the issue sported gains in the range of 50%-100% and 6% of issue sportrd gaind in the range of more than 100%. The year 2012 and 2013, witnessed IPO issues with 09 and 3 respectively and they repectively posted 55% and 34% negative gains . However the year 2012 witnessed 34% positive returns in the range of 0%-20%, and 11% gave positive returns in the range of more than 100%.

The table reveals that the year 2014 witnessed 04 IPO issues of which 50% of the issues recorded negative returns, while 25% positive returns were in the range of 50%-100% and another 25% returns were in the range of more than 100%.The table also reveals that the the year 2015 witnessed 21 IPO issues of which 39% of the issues posted negative returns while, 5% of the issues posted positive returns in thr range of 0%-20%, and 42% of the issues posted positive returns in the range of 20%-50%, and another 14% of the returns were in the range of 50%-100%.

Table 5: Showing Descriptive Statistics of IPO performance for the period 2011 to 2015

Returns	Mean	Standard Deviation(σ)	Max.Return	Min Return
Listing Day Returns	3.066567164	37.22347465	97.76	-91.61
30th Day Returns	0.434179104	44.11433091	151.95	-87.4
90th Day Returns	5.059253731	54.37766591	140.81	-90.9

Table 5 shows the descriptive statistics such as mean, standard deviation, and maximum and minimum return on the listing day, 30th day, and 90th day returns for the period 2011 to 2015. It is observed that the average returns on the listing day were 3.06%, ranging from -91.61% to 97.76% with standard deviation of 37.22%. The average one month return of IPO issue during the study period were found to be 0.43%, ranging from 151.95% to -87.4% with standard deviation of 44.11%. further the average IPO returns for 3 months are 5.05%, ranging from -90.09% to 140.81% with standard deviation of 54.37%.

Table 6 Showing Average Return of IPOs for the period 2011 to 2015

Returns\Year	2011	2012	2013	2014	2015
Listing Day	-5.69933	2.663333	8.04	29.44	10.0281
30th Day	-14.6443	9.152222	5.89	30.045	11.81905
90th Day	-12.779	7.69	8.783333	39.4675	22.32905

The table 6 shows the year wise average returns of IPOs for the period of 2011 to 2015. It is evident from the table that 5 of 4 years i.e. 2012-2014 witnessed positive returns on listing day, 30th day and 90th day of trading. While the year 2011 witnessed negative returns on listing day, 30th day and 90th day of trading.

FINDINGS

- It is found that total 67 IPO offers were made during the period 2011-2015.
- It is evident from the analysis the year 2011 witnessed maximum number of IPOs, while the year 2013 witnessed lowest IPO offers during the study period.
- It is evident from the study that on an average 55.22% of the IPOs during the study period, successfully posted positive returns on the listing day.
- It is found that 37 of 67 IPOs were under-priced on listing day, whereas 29 IPO issues were found to be overpriced during the study period.
- It is revealed that the on an average 49.25% of the IPO issues posted positive returns on the 30th day of trading.
- It is revealed that on an average 46.26% of the issues positive returns on the 90th day of trading.
- It is evident from the study the the IPOs on 30th and 90th day found to be underperforming.

SUGGESTIONS

1. Initial public offering can offer promising retuns on the listing day, in view of this investors can capatlize on this and are advised to invest in Intial public offering.
2. Higer proportions of gains found to exists on listing day. However, the profits are found to be diminishing on 30th and 90th day of trading, in view of this the investors are advised to exit the IPO market in the first week of listing.

LIMITATIONS OF THE STUDY

i. The study is limited to the companies listed on National Stock Exchange (NSE).
ii. The data collected for the study includes nominal values, which are not free from the effect of inflation.

CONCLUSION

Investing in Initial Public offer is a risky job, as there is very little historical data available for analysing the stocks, making it difficult to predict, how the stock will perform on the day of listing day as well as in the long run. In view of this, an attempt has been made in the light of our findings to aid investor class in predicting the probability of an investor in making money in an IPO issue.

The paper examines the performance of Indian IPOs, on listing day, 30th day and 90th day of trading during the period 2011-2015. We report, that there exists underpricing on the listing day. The study further reveals that there exists higher proportion of gains on listing day, while the IPOs underperformed on 30th and 90th day of trading.

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