

“An empirical analysis on the performance of IPO’s of selected companies listed in the national stock exchange of India”

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Abstract

Initial Public Offerings are an important source of income to any company going public. The sample period is January 2013-December 2014. The study aims at analysing the short and the long term performance of the IPO’s listed in National Stock Exchange of India. Analysis has been done to find highest profitability to see if investing while the IPO is offered by the company or during the trading of the security after the listing day.

Keywords: empirical performance national stock exchange

Introduction

An initial public offering (IPO) is a company’s first offering of equity to the public. IPO is a major source of capital for firms. Thus IPOs market being an important part of the primary market is an important segment of capital market of the financial system, which plays a significant role in the economic growth and development of a country by transferring resources from surplus units to deficit units in an efficient and productive manner. For most businesses, the decision to go public is made gradually over time as changes in the company's performance and capital needs make an IPO

seem more desirable and necessary. But many companies still fail to bring their plans to sell stock to completion due to a lack of planning.

According to the Global IPO trends Report 2007 by Ernst and Young, India has the largest number of the both small and mid-cap public companies in the world and India’s exchanges were ranked eighth in the world for the number of IPOs and value in 2006. This section explains the overview of Indian IPOs market and regulatory framework which govern the Indian IPOs market.

IPO's - Year Wise (IPO's in India Share Market)				
Year	No. of IPOs	Amount Raised (In Rs Cr)	Issue Succeeded	Issue Failed
2007	108	33,946.22	104	4
2008	39	18,339.92	36	3
2009	22	19,306.58	21	1
2010	66	36,362.18	64	2
2011	40	6,043.57	37	3
2012	27	6,865.94	25	2
2013	39	1,645.87	37	2
2014	47	1,479.68	45	2
2015	65	11,627.51	65	0

(Source: NSE report)

Need for the Study

Public companies also are faced with the added pressure of the market which may cause them to focus more on short-term results rather than long-term growth. The actions of the company's management also become increasingly scrutinized as investors constantly look for rising profits. This may lead management to perform somewhat questionable practices in order to boost earnings.

Before deciding whether or not to go public, companies must evaluate all of the potential advantages and disadvantages that will arise. This usually will happen during the underwriting process as the company works with an investment bank to weigh the pros and cons of a public offering and determine if

it is in the best interest of the company. This study helps the investor to decide the suitable investment strategy to get maximized returns.

Data and Research Methodology

The present study was essentially descriptive in nature to describe the short term and long term performance of initial public offerings (IPOs) in the Indian capital market with selected sample of Indian IPOs. The period for the study was from Jan 2013 – Dec 2014. This period has been chosen because the company’s performance is measured for an year in the long run which requires one year data after listing. Data has been collected from NSE, CMIE PROWESS, CAPITAL

LINE. The present study was mainly confined to secondary data. The secondary data pertains to sample of 9 companies whose IPOs got listed on the National Stock Exchange (NSE) and in formations have consistently been available. The sample of the study was based on the following criteria

- 1 The size of population was limited to the companies which are presently trading in National stock exchange (NSE) in the year 2013 and 2014. Out of the total universe size of IPOs of 14 companies only IPOs of 9 companies fell in this category
- 2 NSE- Nifty was selected as the Market Index for the study because National Stock Exchange of India is the oldest stock exchange and most of IPOs were listed in the stock exchange.

Objectives

The main objective of the study was to evaluate the performance of IPOs in India. Keeping the above in consideration, the present study has been conducted with the following objectives:

1. To find out the performance of Indian IPOs for short period, i.e. from the date of offer to the public to the date of their first day of trading after listing on stock exchange.
2. To measure the long term performance of Indian IPOs including initial returns.
3. To measure the long term performance of Indian IPOs excluding initial returns.
4. To analyse whether the returns are more during the short term or long term performance of an IPO for better conclusion.

Data Analysis

A. Primary Market Returns Calculation

S.no	Name of the Company	Raw returns% (P1-P0)*100 P0	MAER%	Annualised raw returns (%)	Annualised MAER (%)
1	Power Grid Corporation Of India Limited	10.28	11.77	288.57	330.39
2	Just Dial Ltd	15.63	18.43	407.55	480.55
3	RepcO Home Finance Limited	-5.93	-3.07	-135.28	-69.94
4	V-Mart Retail Limited	-3.19	-1.87	-77.64	-45.57
5	Monte Carlo Fashions Limited	-17.04	-13.37	-433.27	-340.03
6	Shemaroo Entertainment Limited	0.59	2.67	23.86	108.42
7	Sharda Cropchem Limited	48.37	50.03	1260.95	1304.25
8	Snowman Logistics Limited	69.79	67.89	1819.45	1769.91
9	Wonderla Holidays Limited	152.36	134.50	4277.80	3776.44
	Mean	30.09	29.66	825.78	812.71
	Minimum	-17.04	-13.37	-433.27	-340.03
	Maximum	152.36	134.50	4277.80	3776.44

(Source: Secondary data)

From the above table it can be found that the initial day returns was the highest for Wonderla Holidays has offered a highest returns on the listing day at 3776.44% while the least was Monte Carlo Limited at -340.03%.

Long Term Performance

Including Initial Returns

Company	Rit%	Rmt %	MAER%
Power Grid Corporation Of India Ltd.	35.23	16.68	18.54
Just Dial Limited	107.67	2.08	105.58
RepcO Home Finance Limited	55.29	2.56	105.58
V Mart Retail Limited	-6.54	-0.72	-5.82
Monte Carlo Fashions Limited	-21.23	-2.36	-18.87*
Shemaroo Entertainment Limited	27.83	3.27	24.55
Sharda Cropchem Limited	87.02	2.24	84.78
Snowman Logistics Limited	97.45	4.47	92.98
Wonderla Holidays Limited	128.53	22.11	106.43*
Mean	56.80	5.59	57.08
Maximum	128.53	22.11	106.43
Minimum	-21.23	-2.36	-18.87

The above table shows the Market Adjusted Excess returns for the sample companies and the results exhibit that the highest return was offered by Wonderla Holiday Ltd at 106.43% and

the least returns was offered by -18.87% by Monte Carlo Fashions Limited. The above returns calculation includes the returns of the listing day.

Excluding Initial Returns

Company	Rit%	Rmt %	MAER%
Power Grid Corporation Of India Ltd.	22.62	18.45	4.17
Just Dial Limited	79.74	5.02	74.71*
Repc Home Finance Limited	65.08	5.59	59.49
V Mart Retail Limited	-3.45	0.61	-4.06
Monte Carlo Fashions Limited	-5.52	1.35	-6.88
Shemaroo Entertainment Limited	27.08	5.47	21.61
Sharda Cropchem Limited	30.09	3.84	26.26
Snowman Logistics Limited	16.29	2.52	13.77
Wonderla Holidays Limited	-9.44	3.29	-12.73*
Mean	24.72	5.13	19.59
Maximum	79.74	18.45	74.71
Minimum	-9.44	0.61	-12.73

The above table shows the Market Adjusted Excess returns for the sample companies and the results exhibit that the least return was offered by Wonderla Holiday Ltd at -12.73% and the highest returns was offered at 74.74% by Just Dial Limited. The above returns calculation excludes the returns of the listing day. This shows that Wonderla Holiday Ltd. performed poorly after the listing day. Hence if the company bought after the listing day would have fetched poor returns.

Conclusion

- As per the findings it is better to use buy and hold policy i.e buying the security in the primary market and selling it is the secondary market.
- It is better to buy and sell in the primary market by looking at companies past performance and promoters background.
- Companies which give negative returns in the market can be avoided.
- It is important to have knowledge on the future plans of the company to analyse the performance of the company in the long run since majority of the stocks are bought and sold in the secondary market have shown declining profits.

This study is aimed at analysing the performance of IPO both in primary market and secondary market. It is also important for the investors to analyse the trend of IPO stocks to make informed decisions.

There are five companies that offered higher returns in the primary market and sold in the secondary market, there is only one company which gives higher returns in the primary market and one company which gives higher returns in the secondary market.

Thus it can be concluded from the study that it is ideal to buy IPO stock in the primary market and sell in the secondary market to enhance profits.

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