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Post listing Performance of Initial Public offers (IPOs) in Indian Capital Market – A Study

Dr. Sanjay P Sawant Dessai*

Abstract

The robust economic growth achieved by the Indian Economy in the post reform period attracted lot of interest from foreign institutions which stimulated strong performance of the Indian Capital market. This has led to large influx of primary issues, as promoters wanted to take advantage of booming market. With Indian economy is slowing down for last three years and the surge in gold prices, it is imperative to know the performance of Indian IPOs which came in market during this period. The paper deals with the analysis of performance of Initial public offers which were offered to public through Bombay Stock Exchange, in-between July 2010 to June 2013 are studied. Sector wise performance of these IPOs that is appreciation in price over and above issue price in secondary market over a period from six to thirty-six months is studied.

Key words –Initial public offerings, performance, listing gain

Introduction

Initial public offers are considered as one of the safe investments compared to secondary market as investor need not do much evaluation of offer as offers comes with rating allotted by the rating agencies . Many investors invest in IPO with an intention of booking post listing appreciation. Promoters also normally float IPOs when equity markets are trading at highest price earnings multiples to take the advantage of gaining highest return on their stake sale.

When private company in converted in to public company for want of funds they make public offer, normally companies goes to public when indices are trading at highest Price earnings multiples. Earlier years researchers have proved that IPO are under-priced to attract the investors, especially the retail investors to attract maximum participation and these issues is to get oversubscribed and shares is to list at hefty premium to issue price on listing day. But now trend has been changed, companies try to enter capital market when indices are trading at highest price earnings multiples. Post 2008 collapses of equity markets investors have learn many lessons.

*Associate Professor, VVMs Shree Damodar College of Commerce and Economics Margoa Goa.

IPO of Reliance power, one of the issue were retail investor had invested in large number and post listing they had lost their 80 percent of the wealth and till date reliance power share are trading below 80 percent of issue price.

Post-recession of 2008 world-wide stock markets underperformed for almost 2 years and from 2010 markets started recovering and that was the time when many promotes started to enter primary market. Indian stock market started showing upward trend and Sensex moved from 10,000 to 20,000 over a period of three years and during this period many companies came with IPO, it is interesting to know how they have performed post listing for last three years.

Present study deals with Initial Public Offers of by companies which were issued through Bombay Stock Exchange during the period from July 2010 till June 2013, and their performance post listing in secondary market based on market price appreciation over period of different time frames ranging from 6 months to 36 months. Also an attempt is made to see if there is a significance difference in post listing appreciation based on different industry sectors.

Literature review

There are lot of studies have been done on IPO performance in India and abroad. Still growing literature on the topic motivate researcher and give scope for further studies. Interesting empirical findings on IPO return shows majority of the studies are concentrated on under pricing or over pricing of IPOs. if there is appreciation in market price of IPO post listing it is considered as issue was underpriced and similarly if there is a negative return post listing it is considered as under pricing.

Aggarwal and Rivoli (1989), Ritter and Welch (2002) document under pricing in the U.S. market. Jog and Riding (1987) report the same for the Canadian market; Wong and Chiang (1986) for the Singapore market; and Yong and Isa (2003) provide evidence on under pricing of IPOs in the Asian markets. It is clear that most studies agree that IPOs leave some money on the table for post listing appreciation.

In the Indian context Shah (1995) documents a phenomenal 105.6% excess return over the offer price in short run in a study of 2056 new listings over the period January 1991 to May 1995. While Madhusoodanan and Thiripalraju (1997) from a study on IPOs offered on BSE

during the period 1992 to 1995 shows that under pricing was higher than the international experiences in the short run and in the long run too they yield higher returns compared to the negative returns recorded from the international markets. Krishnamurti and Kumar (2002) working on a sample of IPOs that hit the market between 1992 and 1994 demonstrate that the under pricing is to the extent of 72.34%. Kakati (1999) analyzed the performance of a sample of 500 IPOs that came to the market during January 1993 to March 1996 and documents that there was short run under pricing and in the long-run there was overpricing. Arwah Arjun Madan (2003) conclude that in the long run (five-year after listing), there is a drastic fall in the return on IPOs returns; returns are found to be negative from the second to the fifth year of listing. K. Hema divya (2013) studied the performance of companies who followed the book-building route and concluded that this company also faces under pricing. Finding s says that there is an extent of over subscription of an IPO, which will determine the First Day Gains. The over subscription will leads to larger First Day Gains for the IPOs.

Present study deals with IPO which hit Indian capital market during 2010 to 2013, when Indian markets were in 3 years uptrend, so it's interesting to know whether they were overpriced or underpriced.

Objectives of the study

Purpose of this study is to evaluate the sector wise market price performance of IPOs offered through BSE from July 2010 to June 2013 for a period ranging from six months to thirty six months

1. To study IPO market price appreciation post listing
2. To study if there is any significance difference in IPO performance based on different industry sectors

Scope of the study

Scope of the study is restricted to evaluation of post listing performance e of IPOs for period ranging from six to 36 months, which listed on BSE during a period of July 2010 June to 2013

Significance of study

Study is mainly important from the point of view of small / retail investors who do not have much knowledge about the fundamental analysis of public offers, and IPO normally come in market when markets are trading at highest trading multiple, this study will proved an insight to the investor to know the how these ipos perform in the market post listing .

Research Methodology

Sample selection

Public offers made through Bombay stock exchange from July 2010 to June 2013 were considered. There were 91 IPO were issued through BSE, out of which 6 issue were withdrawn by the company and another three issues are not trading post listing. Total 82 issues are considered for evaluation purpose. All the IPOs are grouped in six groups of six months each.

Period	No. of IPOs	Percentage
Issued between July to Dec 2010	35	42.7
Issued between January to June 2011	23	28
Issued between July to Dec 2011	12	14.6
Issued between January to June 2012	04	4.9
Issued between July to December 2012	05	6.1
Issued between January to July 2013	03	3.7
Total	82	100

Data

Data related to IPO issue price, sectors and present market price are taken from Bombay Stock Exchange and Money control websites

Analysis of data

Analysis of performance of IPO post listing market price appreciation from issue price is analysed over a period ranging from six months to 36 months. And cut off date considered to measure the appreciation / depreciation is December 31 2013. For analysis all IPOs are groups into six groups of six months period each, and performance is analysed for period of six to thirty six months. Data is analysed with the help of Mean difference in return and

ANNOVA has been performed to test the significance difference in return between sectors of the industry.

Hypothesis

Following hypotheses are tested

H1 - All the IPOs issued during period of last 3 years have posted negative returns .

H2 There no significance difference in returns generated by IPO post listing based on industry sectors.

Sector	No of companies	Percentage
Finance	12	14.3
Miscellaneous	10	11.9
Mining and metal	9	10.7
Construction and infra	8	9.5
Power	6	7.1
Engineering	6	7.1
Retail and consumer goods	5	6.0
Media	4	4.8
Computer and software	4	4.8
Jewellery	4	4.8
Pharma	3	3.6
Packaging	3	3.6
Shipping	2	2.4
Chemicals	2	2.4
Textile	2	2.4
Telecommunication	1	1.2
Printing	1	1.2
Hotels	1	1.2
Rating	1	1.2
Total	84	100.0

Results and observations

Overall returns

During July 2010 to December 2010 there were 35 IPOs were issued and their performance over period of 36 months shows that it has generated negative return to the extent of 138 percent. Similarly issues which were made between Januarys to June 2011 and were in

market for over a period of 30 months have shown negative return of 51 percent. IPOs issued between July to December 2011 and their performance over a period of 24 months shows that there is a negative return of 54 percent. Issues which came in to market during January to June 2012 and which were studied for period of 18 months shows a negative return of almost 160 percent and issues of July to December 2012 has shown a negative return of 79 percent over a period of 12 months. Only latest IPOs which came in market in the first half of 2013 have shown a positive return of 58 percent.

Table 2. Overall returns of IPOs over period of six months to 36 months

Period	No. of IPOs	Percentage	Number of months	Overall Return
Issued between July to Dec 2010	35	42.7	36	-138
Issued between January to June 2011	23	28	30	-51.14
Issued between July to Dec 2011	12	14.6	24	-54.51
Issued between January to June 2012	04	4.9	18	-160
Issued between July to December 2012	05	6.1	12	-79.11
Issued between January to July 2013	03	3.7	06	58
Total	82	100		

Finding shows that overall IPO shows negative return and we can accept null hypothesis

H1 - All the IPOs issued during period of last 3 years have posted negative returns

Sector wise return analyses for three years

Market price appreciation across the sectors also shows similar results. During July 2010 to Dec 2010 there were thirty five IPOs which issues across 14 different sectors, of which maximum seven were from mining and metal sector and six were from construction and infrastructure. Their performance is analysed for over a period of thirty six months.

Results show that only Jewellery sector has given a positive return of 50 percent over a period three year whereas rest of the all sectors have given a negative return. Highest negative return is from construction and infrastructure sector with a negative return of 313 percent from six issues. Three companies from retail sector also have shown a negative return of 191 percent. 7 companies from mining and metal sector has generated negative return of (-90) %

Table 3. Sector wise return of companies for 36 months

Sector	No of IPO	Average (%) return	Std. Devi	Maximum	Minimum
Finance	2	-79.00	26.87	-98.00	-60.00
Media	2	-73.00	19.79	-87.00	-59.00
Mining and metal	7	-90.34	123.62	-330.00	31.00
Shipping	2	-66.65	61.30	-110.00	-23.30
Construction and infra	6	-313.10	310.69	-880.00	-38.00
power	4	-107	189.68	-391.00	8.00
Retail and consumer	3	-191	182.79	-400.00	-57.20
Engineering	2	-230	158.39	-342.00	-118.00
Pharma	1	-64.00	.	-64.00	-64.00
Computer and software	1	-249	.	-249.00	-249.00
Jewellery	1	50.05	.	50.05	50.05
Miscellaneous	2	-64.60	52.89	-102.00	-27.20
Chemicals	1	-2.00	.	-2.00	-2.00
Printing	1	-39.00	.	-39.00	-39.00
Total	35	-138	182.22	-880.00	50.05

Analysis of return for 30 months

Analysis of results of IPO which were available in market over a period of 30 months also shows similar results, out of 24 IPO issued from 10 different sectors none of the sector has generated any positive market return. There were six companies each from finance and miscellaneous sectors and both sectors have generated negative return of (-48) and (-38) respectively

Table 4. Sector wise return of companies for 30 months

Sector	No of IPO	Average (%) return	Std. Devi	Maximum	Minimum
Finance	6	-48.31	50.13	-110.00	4.00
Mining and metal	2	-68.27	32.64	-91.35	-45.19
Power	1	-24.75	.	-24.75	-24.75
Engineering	2	-61.62	10.42	-69.00	-54.25
Pharma	1	-197	.	-197.00	-197.00
Computer and software	1	-84.55	.	-84.55	-84.55

Miscellaneous	6	-38.02	24.10	-76.00	-9.65
Packaging	1	-33.30	.	-33.30	-33.30
Chemicals	1	-51.50	.	-51.50	-51.50
Textile	2	-03.70	92.91	-69.40	62.00
Total	24	-51.14	50.03	-197.00	62.00

Analysis of return for 24 months

For twenty-four months period there were 12 IPO are analysed from nine different sectors

Table 6. Sector wise return of companies for 18 months

and only one sector (computer and software) has generated positive return of 111 percent whereas rest of the all sectors have posted negative returns.

Table 5. Sector wise return of companies for 24 months

Sector	N	Average (%) return	Std. Devi	Maximum	Minimum
Finance	3	-47.83	109.37	-146.10	70.00
Media	1	-28.50		-28.50	-28.50
Construction	1	-137		-137.15	-137.15
Power	1	-169		-169.50	-169.50
Retail and cons	1	-131		-131.00	-131.00
Engineering	1	-56.00		-56.00	-56.00
Pharma	1	-85.55		-85.55	-85.55
Computer	1	111		111.00	111.00
Packaging	2	-7.00	87.67	-69.00	55.00
Total	12	-54.51	91.05	-169.50	111.00

Analysis of return for 18 months

There were four IPO came during January to June 2012 and their performance in secondary market over a period of 18 months shows that overall there is a negative return of 160 percent. There is one each IPO from four different sectors of which three has generated positive return and one IPO form miscellaneous sector has generated a negative return of 725 percent .

Sector	No of IPO	Average (%) return	Std. Devi
Construction and infra	1	14.00	
Computer and software	1	40.00	
Jewellery	1	28.00	
Miscellaneous	1	-725	
Total	4	-160	376.31

Analysis of return for 12 months

IPO issued during July 2012 to December 2012 across six different sectors and their performance over a period of 12 months shows overall negative return of 79 percent and not single IPO has shown positive return.

Table 7. Sector wise return of companies for 12 months

Sector	No of IPO	Average (%) return	Std. Devi
Engineering	1	-50.55	
jewellery	1	-43.00	
Telecommunication	1	-84.00	
Hotels	1	-20.00	
Rating	1	-198	
Total	4	-79.11	70.30

Analysis of return for 6 months

IPOs issued during January 2013 to June 2013 and their performance over a period shows a positive return of 58 percent. Finance sector has given return of 65 percent and one company form miscellaneous sector has generated a return of 146 percent.

Table 8. Sector wise return of companies for 6 months

Sector	No of IPO	Average (%) return	Std. Devi
Finance	1	65.00	
Retail and consumer goods	1	-37.00	
Miscellaneous	1	146	
Total	3	58	91.70

Sector wise analysis

To study the significance difference in return generated across the different industry sectors for period of last three years, results shows that there is no significance difference in return across the all the sectors

Conclusion and suggestion

Normally initial public offers enter market when equities at trading at highest multiple or indices are at highest price , the study shows that in spite of sensex moving from 10000 to 20,000 over a period of 3 years overall IPO has given negative return over a period of 3 years. Similarly except gold all sectors also has given a negative return. Possible we could conclude that all IPO were overpriced to take advantage of booming secondary market. With this negative return retail investors will be watchful before entering the primary market.

ANOVA result of return and influence of industry sector (3 years return)					
	Sum of squares	df	Mean square	F	Sig.
Between the groups	347123.543	13	26701.811	.717	.728
Within the groups	781887.732	21	37232.749		
Total	1129011.275	34			

This study will be very useful for retail investor to take his investment call in primary market Further post preliminary election, NDA govt. Is at centre with majority it will be interesting to study what is the return these IPOs have generated over a period of 1 year of new government.

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