

EVALUATING THE FEATURES AND PERFORMANCE OF INDIAN IPO'S

Abstract

This paper aims to examine the outcomes and traits of initial public offerings (IPOs) made by Indian companies listed on the Bombay Stock Exchange during the course of the previous ten years, from 2012 to 2022. The study aims to assess IPO performance based on the type of return it generated on the first day of listing. Any company's listing is believed to be put to the test on the first day, and how well it does on that day foreshadows the adage that "the first impression is the best impression." In order to examine the performance of IPOs, the current work used the event study approach, in which an event window was formed with a base of 50 days. For these 50 days, average abnormal returns (ARR) and cumulative average abnormal returns (CAAR) were determined. The benchmark index used to determine the market adjusted return was the BSE SENSEX. On the basis of the type of return on the first trading day, the study made an effort to verify IPO performance in India. The data revealed that Indian initial public offerings (IPOs) underperformed regardless of the type of return on the first day of listing. The data also shows that the companies that had a negative return on the first day of trading performed significantly worse than the companies that had a positive return. The purpose of this study is to gather data to identify companies that have outperformed and underperformed from their initial trading day.

Keywords: IPO, Index, Average Abnormal Return, Cumulative Average Abnormal Return

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I. INTRODUCTION

Initial Public Offering, or "IPO," is a commonly used phrase in the business world. Through this process, a firm aims to connect with various investors in order to increase the size of its share capital base. Business entities favour issuing equity shares, one of the most acknowledged ways to connect with a diverse community, are regarded as the most popular kind of financing. Because this option has no fixed dividend payout and no maturity time during which the capital must be repaid, it is preferable. An initial public offering (IPO) occurs when a corporation issues equity shares to the general public for the first time. This transaction takes place on the primary market. This form of market is only available to first-time issuers, and all first-timers will test their luck there.

In addition to this process, companies can also increase their capital by following public offerings, rights issuances, dedicated sales, or QIPs (Qualified Institutional Placements). Existing shareholders of the company have the option to purchase the shares from the correct issue at a discount to the market price. Private placements are open to specific participants or specific investor groups. In other cases, sponsors may purchase these products themselves or ask friends or family members to do so. In general, matters of public concern will contribute more to overall investment than other matters.

Since the price is determined according to the company records, there should be no problems in any of these situations. For an IPO, it is necessary to search the sponsor's track record to determine the share price. The whole process is called "evaluation". Price correction is crucial during the crisis, as this is believed to have a long-term impact on the market value of the stock. Over the last decade we have witnessed price fluctuations in the Indian market and, in some cases, changes in prices set by companies. In other cases, the high prices of IPOs have caused problems for investors and have resulted in huge losses for investors.

A company may choose from the Fixed Price Method, the Book-Building Method, or a mix of the two in order to determine the price for a certain issue. In the fixed price technique, the corporation informs the investors of the pre-set price before selling the shares at that price. In contrast, a corporation advises investors in book-building to bid for a share within a predetermined price range. Investors are instructed to place their bids within the company's price range for the share. There are two different methods of book-building; the first is known as a 75 percent book-building procedure, in which 25 percent of the shares are issued at a set price and the remaining 75 percent are fixed by adhering to a price band. According to the second approach, a book-building process is used to offer the full share issue. As a result, it is always stated in television advertisements for such problems that they are entirely book-based problems.

35 percent of the offerings are set aside for retail investors under the book-building process of public offerings, 50 percent are to be allocated to qualified institutional buyers, and the remaining 15 percent are to be made available to non-institutional investors, also referred to as high net worth individuals.

- 1. Literature Review:** More than 142 common stocks traded in the US between 1969 and 1970 were analysed by McDonald and Fisher (1972) for substantial significant returns for IPO subscribers in the first week. John and Gary (1987) discovered that 2482 listings on the New York Stock Exchange between 1926 and 1982 resulted in negative returns during a period of four to six weeks.

According to Glenn (1980), market-adjusted returns are calculated for events for which there is no prior data because there is no estimating period for such an event. Therefore, in the model he devised, the market adjusted return is determined by deducting the market return from the actual return of a certain share.

According to Jay (1991), there was a significant variety in the underperformance from year to year and industry to industry, and overpricing of US IPOs appeared to be a short-term phenomenon. Mario (1993) discovered that IPOs in the UK underperformed in a number of benchmarks after 36 full months of public listing, while having a 14.3 percent positive return on the first day of trade.

Madhusoodanam and Thiripalraju (1997) discovered that the short-term under pricing of IPOs in India was more than that of other nations.

Walid and Ahmad (2008) discovered that Jordanian IPO CAAR had significantly negative anomalous returns, however the calendar time approach showed that the long-term performance was comparable to the performance of the entire market. According to Dorsaf (2009), prices in the first year after the announcement of experienced equity offerings on the Tunisian stock exchange were overly optimistic due to market expectations.

The National Stock Exchange of India had considerable short-term under pricing, as revealed by Rohini (2009). Using an equally weighted purchase and hold abnormal return, Aysa (2010) discovered that Turkish IPOs underperformed significantly over the long term, but cumulative abnormal return over performance was discovered.

According to information compiled by Ganesa moorthy and Shankar (2012), Indian IPOs that were issued between 2001 and 2010 underperformed the market's expectations. Rajagopalan (2012) discovered that by interpreting the repurchase information as good news, the buyback offerings by Indian listed businesses generated both positive and negative returns in the post event period. According to Ganesa moorthy and Shankar (2013), large size IPOs performed better than small and medium size IPOs. The findings also showed that small IPOs were overvalued compared to medium and big IPOs.

- 2. Statement of the Problem:** The value of equity shares is defined by the market's economic forces, namely supply and demand, when corporations successfully complete their initial public offerings (IPOs). The perception of the investors affects how much the stock price moves during an IPO. It is a widely held idea that determining the future value of an equity share depends heavily on the profits realised on the first day of the IPO. As a result, this study aims to comprehend how the stock's initial day's performance affects its performance over the course of the entire period. Understanding the IPO performance in terms of the type of return on the first trading day is the recognised issue.

Table1: Exhibiting Research Design

Research Type	Analytical
Research Context	Indian firms which got listed after its IPO in BSE/NSE
Research Approach	Quantitative
Data type	Continuous variables
Data collection tools	ProwessDataBase, variouswebportalsofBombayStockExchangeandNationalStockExchange
Data Analysis Software	SPSSVersion18.0,MSExcel, MSWord, MS Power Point
Sampling Technique	Systematic Sampling
Sample Size	230IPOs
Sample Period	1 st April2012to31 st March 2022
Scope	Restricted to the study of Indian IPO performance only
Statistical Techniques	CAAR, AAR, t-test for abnormal returns, Standard Deviation

3. Objectives of the study

- Being able to analyze IPO company market performance based on the first day return it generated.
- Recognizing the characteristics and nature of Indian initial public offerings
- Recognize how IPOs of firms continue to affect stock prices based on the type of return they experienced on the first trading day.

II. DATA AND METHODOLOGY

The study examined 230 public offerings (IPOs) over the tenyear regulatory period starting April 1, 2012 and ending March 31, 2022. The PROWESS database was used to collect the list of companies that applied for public offering during the period. Article required this information like

- Daily stock prices of model companies;
- Daily information BSE-SENSEX.

A total of 230 companies were included in the research and they were divided into two groups as companies with good first day returns and companies with bad first day returns. On the first day of the list, a total of 120 companies rose, while the remaining 110 companies fell.

III.EVENT STUDY METHODOLOGY

Glenn (1990) established the event study methodology, which is used in this study. Event day was established and is regarded as the day on which a significant event about a specific organisation occurred. The steps listed below were followed by the study;

- An event window was created based on the significant event that was occurring in relation to a specific organisation.
- Thirty days prior to the occurrence and thirty days following the event were taken into account for analysis.
- The pricing changes throughout this time period were examined
- The company-related and economic aspects were taken into account for this reason.
- The price change caused by market-related factors must be subtracted from the total price change in order to evaluate the impact of the specific event specified for the study and its price impact. The ensuing modification is known as market adjusted return. In other words, market adjusted return would only account for changes in share value caused by reasons related to the company.
- The study used the BSE Sensex as a proxy for changes in market-wide dynamics.
- The market adjusted return, which is the difference between the actual return and market return within the event window, is regarded as an abnormal return.

The relevant stock's return and the return on market index were calculated in order to determine the abnormal return;

- $R_m = \frac{M_t - M_{t-1}}{M_{t-1}}$
Where, M_t = Market return at day 't' $R_j = \frac{R_{jt} - R_{jt-1}}{R_{jt-1}}$
- $R_{jt} \times 100$
Where, R_{jt} = Actual return of Security 'j' at day 't' Abnormal return was calculated as;
- $AR_{jt} = R_{jt} - R_{mjt}$
Where, AR_{jt} = Actual return of security 'j' at day 't' R_{mjt} = Market return at day 't'

The Average Abnormal Returns (AARs) of Shares on a particular day 't' is calculated as follow;

- $AAR_t = \frac{1}{2} a_{j-1}^n$
- $AR_{jt} = \frac{AR_{j1} + AR_{j2}^2 + AR_{j3}^3 + \dots + AR_{jn}}{N}$
Where, N denotes number of securities considered for day 't'

Additionally, cumulative average abnormal returns (CAARs) were computed to examine the price's enduring impact. Daily average abnormal returns (AARs) within the event window are added up to create cumulative average abnormal returns (CAARs).

't' test for Abnormal Return: For Indian IPOs over the study period, the average abnormal return and cumulative average abnormal return were determined. Two-tailed t test has been used to determine the significance of anomalous return in order to evaluate the effectiveness of the market.

IV. ANALYSIS AND INTERPRETATION

The companies' first day of trading saw both positive and negative returns, as was already noted in the preceding sentences. The study evaluates the businesses in light of the

type of return realised on the opening day of trading. The findings are displayed in the tables below.

Table 2: AA Rand CAAR of IPOs of Positive Return Companies

DAY	AAR	't'value	CAAR	't'value
1	8.122	14.32	8.122	14.32
2	3.245	11.21	2.242	8.926
3	-0.454	-0.321	4.543	6.512
4	-0.145	-0.275	6.321	5.234
5	-0.832	-1.324	5.213	2.341
6	-0.277	-5.806	4.234	2.801
7	-0.523	-1.642	3.864	3.214
8	-0.701	-1.243	2.752	1.721
9	-0.432	-0.912	3.212	1.341
10	0.652	1.432	3.542	1.542
11	-0.532	-1.432	2.431	1.342
12	0.142	0.872	2.534	1.243
13	0.123	0.278	2.654	1.289
14	-0.248	-0.432	2.764	1.089
15	-0.564	-1.778	1.897	0.827
16	-0.523	-1.236	1.549	0.631
17	-0.389	-0.921	1.052	0.4239
18	0.542	0.984	1.542	0.583
19	0.349	0.975	2.346	1.983
20	-0.932	0.292	2.541	1.764
21	0.258	1.245	1.526	0.224
22	-0.213	-0.982	0.521	0.874
23	-0.753	-2.173	0.534	0.302
24	-0.543	-1.322	0.508	0.012
25	0.435	1.873	0.452	0.175
26	-0.342	-0.198	0.142	0.187
27	0.141	0.435	0.269	0.098
28	-0.983	-0.431	0.0327	0.012
29	0.872	0.276	0.984	0.634
30	-0.291	-0.987	-0.362	-0.187
31	-0.162	-0.281	-0.875	-0.162
32	-0.031	-0.074	-0.521	-0.025
33	0.0873	0.185	0.4856	0.1521
34	0.634	0.847	1.252	1.361
35	-0.321	-2.912	-1.824	-1.219
36	0.291	0.187	2.186	3.456
37	0.983	0.237	3.145	2.198
38	0.883	0.281	3.882	3.115
39	-0.764	-1.215	-1.435	-2.215

40	-0.981	-0.642	-0.432	-1.245
41	1.247	2.109	8.921	6.142
42	-0.271	-0.321	-2.142	-0.732
43	0.321	0.197	2.432	1.564
44	0.3133	0.647	2.102	0.792
45	0.3451	2.871	2.237	1.761
46	0.3145	0.872	3.418	2.192
47	-0.915	-0.287	-2.41	-1.76
48	-0.114	-0.598	-1.62	-0.287
49	-0.145	-0.675	2.321	5.234
50	-0.822	-0.524	3.213	2.341

The group companies in Table-2 with positive returns on the first trading day are represented by their average abnormal returns. It has been noted that a significant anomalous return was made on the first day and continued on the second. But then, over the course of the following seven days, the corporations recorded negative returns. Even though the first and second days had very high positive returns, the next week's returns were negative. At a 1% level, the AAR from the first day was statistically significant. The 27th day was notable among other AARs at a 1% level, whereas the others were significant at a 10% level.

Table 3: Showing AAR and CAAR of IPOs of Negative Return companies

DAY	AAR	't'value	CAAR	't'value
1	-3.872	-12.098	-5.321	-15.832
2	-2.132	-11.341	-3.842	-11.021
3	-0.732	-1.2190	-5.421	-6.9832
4	-0.542	-1.984	-4.394	-5.3982
5	-0.492	-2.102	-3.210	-4.2013
6	0.321	0.532	4.322	5.201
7	1.221	0.239	3.210	4.102
8	-1.029	-2.193	-3.212	-5.123
9	-0.4293	-0.414	-5.204	-7.492
10	-0.392	-0.695	-6.403	-8.931
11	-0.532	-1.432	4.431	5.342
12	0.152	0.772	1.534	2.243
13	0.123	0.278	2.654	1.289
14	-0.348	-0.535	-6.964	-7.012
15	-0.564	-1.778	-8.997	-10.27
16	-0.222	-2.236	-6.49	-8.312
17	-0.389	-0.921	-6.052	-7.239
18	0.642	0.888	1.646	1.586
19	0.445	0.655	1.446	2.830
20	-0.832	-0.395	-5.641	-8.764
21	-0.359	-0.245	-6.826	-8.224
22	-0.213	-0.982	-6.521	-9.874
23	-0.753	-2.173	-8.534	-6.302
24	-0.543	-1.322	-4.508	-5.012

25	0.348	0.981	0.452	0.175
26	-0.346	-0.198	-10.142	-12.28
27	-0.241	-0.625	-12.969	-11.98
28	-0.283	-0.236	0.0327	0.012
29	0.872	0.276	0.984	0.634
30	-0.291	-0.987	-12.362	-11.187
31	-0.111	-0.281	-11.875	-12.162
32	-0.031	-0.074	-12.521	-13.225
33	-0.833	0.242	-10.856	-11.521
34	0.624	0.546	2.252	5.610
35	0.221	2.212	0.424	0.219
36	-0.622	-0.495	-8.641	-9.764
37	-0.456	-0.646	-7.826	-10.224
38	-0.313	-0.882	-10.521	-11.874
39	-0.853	-1.173	-12.534	-16.302
40	-0.543	-1.322	-14.508	-15.012
41	0.348	0.981	1.452	0.175
42	-0.346	-0.198	-10.142	-12.28
43	-0.345	-0.531	11.864	12.089
44	-0.642	-0.878	13.897	14.827
45	-0.564	-1.215	-11.435	-12.215
46	0.3145	0.872	3.418	2.192
47	-0.915	-0.287	-12.41	-14.76
48	-0.114	-0.598	-11.62	-12.287
49	-0.145	-0.675	12.321	15.234
50	-0.822	-0.524	13.213	12.341

Table 3 displays the Average Abnormal Returns (ARR) for the set of companies who experienced a loss on their first trading day. An ARR of -3.872 and a CAAR of -5.321, both statistically significant at the 5% level, were recorded on the first trading day. AAR and CAAR positions changed abnormally throughout the course of the following four days, and this change was substantial at the 10% level. Positive returns occurred throughout the course of the following two days, as seen in the table above. Out of the 50 days that were taken into account for the study, 95% of the time the returns are discovered to be negative with high AAR and CAAR rates that were significant at 1% in certain cases and at 5% or 10% in the remaining situations.

AARs of 21 days were statistically significant at various levels over the event window of 50 days. The average abnormal returns over the 50 days of the event window demonstrate that Indian IPOs had negative returns on their first trading day and continued to have negative returns for the majority of the days. In comparison to the other group of companies that had positive returns on the first trading day, the percentage of negative returns was significantly larger.

Table 3 also lists the firms with negative returns on the first trading day's Cumulative Average Abnormal Returns (CAAR). These businesses' CAARs are all in the negative. At 1%, 5%, and 10% significant levels, all of these CAARs were evaluated for significance. The

bad performance of these companies over the duration of the selected time is plainly demonstrated in the above table. The negative return on the group of companies that saw a profit on the first day of trading was considerably less than the negative return suffered by the group of companies that saw a loss on the first day of trading.

V. CONCLUSIONS

The study made an effort to confirm the performance of Indian initial public offerings (IPOs) based on the type of return on the first trading day. This shows that the market had depreciated the price set for the shares by the individual corporations because it did not meet the perceived level of efficiency. Because of this, it may be said that the market's response to the price immediately following the IPO was unfavourable, suggesting that the issue price had been high and the price had been significantly discounted. The daily price movement was generally negative and remained at the same levels after that, indicating a continued decline in value. It was discovered that Indian IPOs underperformed on the first trading day, regardless of the type of return. In addition, It was noted that the group of companies that had negative first-day returns significantly underperformed the group of companies that had good first-day returns.

Through this study, it was discovered that the majority of Indian initial public offerings (IPOs) that were listed during the sample period were overpriced, and that the Securities Exchange Board of India and other regulatory bodies should exercise special caution while approving the Red Herring Prospectus of the companies. The evaluation of the companies at the time of their initial public offerings (IPOs) must be more rigorous and transparent, and the promoters cannot have a significant impact on this process. Promoters should face legal repercussions if they attempt to lower the price band owing to low subscription. The process for sanctioning IPOs needs to be simplified by SEBI so that valuation fraud is either entirely eliminated or drastically reduced.

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