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POST ISSUE PERFORMANCE OF IPO$_S$ IN INDIA: AN EMPIRICAL STUDY

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ABSTRCT

Initial public offering (IPO) or stock market launch is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time. Through this process, a private company transforms into a public company. Initial public offerings are used by companies to raise expansion capital, to possibly monetize the investments of early private investors, and to become publicly traded enterprises. The objectives of the paper to study post issue performance of the selected IPO'S made during the period from April 2011 to March 2012.To study the basis of arriving at issue price (whether undervalued or overvalued) and also the paper highlights whether the actual returns of the stock meats the expected returns of the investors. For the purpose of research the required data have been collected from companies' annual reports, CMIE report and other secondary sources. Thus, conclusion made is that fluctuation depends not only on performance of the company but due to speculations made and external factors.

KEYWORDS: *IPOs, Stock exchange, Market price and Beta Coefficient.*

INTRODUCTION

Initial public offering (IPO) or stock market launch is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time.Through this process, a private company transforms into a public company. Initial public offerings are used by companies to raise expansion capital, to possibly 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 an 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, or create difficulties with vendors.

Details of the proposed offering are disclosed to potential purchasers in the form of a lengthy document known as a prospectus. Most companies undertake an IPO with the assistance of an investment banking firm acting in the capacity of an underwriter. Underwriters provide several services, including help with correctly assessing the value of shares (share price) and establishing a public market for shares (initial sale). Alternative methods such as the dutch auction have also been explored. In terms of size and public participation, the most notable example of this method is the Google IPO. China has recently emerged as a major IPO market, with several of the largest IPOs taking place in that country. When a privately held corporation needs to raise additional capital, it can either take on debt or sell partial ownership. If the corporation chooses to sell ownership to the public, it engages in an IPO. Corporations choose to "go public" instead of issuing debt securities for several reasons. The most common reason is that capital raised through an IPO does not have to be repaid, whereas debt securities such as bonds must be repaid with interest. Despite this apparent benefit, there are also many drawbacks to an IPO. A large drawback to going public is that the current owners of the privately held corporations lose a part of their ownership. Corporations weigh the costs and benefits of an IPO carefully before performing an IPO.

BACKGROUND OF IPOs

The earliest form of a company which issued public shares was the *publican* during the Roman Republic. Like modern joint-stock companies, the *publicani* were legal bodies independent of their members whose ownership was divided into shares, or *parties*. There is evidence that these shares were sold to public investors and traded in a type of over-the-counter market in the Forum, near the Temple of Castor and Pollux. The shares fluctuated in value, encouraging the activity of speculators, or *quaestors*. Mere evidence remains of the prices for which *partes* were sold, the nature of initial public offerings, or a description of stock market behavior. *Publicanis* lost favor with the fall of the Republic and the rise of the Empire. In March 1602 the "Vereenigde Oost-Indische Compagnie (VOC), or Dutch East India Company was formed. The VOC was the first modern company to issue public shares, and it is this issuance, at the beginning of the 17th century, that is considered the first modern IPO. The company had an original paid-up share capital of 6,424,588 guilders. The ability to raise this large sum is attributable to the decision taken by the owners to open up access to share ownership to a wide public. Everyone living in the United Provinces had an opportunity to participate in the Company. Each share was worth 3000 guilders (roughly equivalent to US$1,500). All the shares were tradable, and the shareholders received receipts for the purchase. A share certificate documenting payment and ownership such as we know today was not issued but ownership was instead entered in the company's share register.

LITERATURE REVIEW

Nurwati A. Ahmad-Zaluki (2008) conducted a study on "Post-IPO Operating Performance and Earnings Management". This study is published in Canadian Center of Science and Education (CCSE) (Vol. 1, No. 2, April 2008,). The study focuses on investigates the operating performance and the existence of earnings management. The results also confirm that the decline in post-IPO operating performance is due to the existence of earnings manipulation by the IPO manager at the time of going public.

SeshadevSahoo and PrabinaRajib (2010) conducted a study in "After Market Pricing Performance of Initial Public Offerings (IPOs): Indian IPO Market 2002-2006 (Vol. 35, No. 4, October – December 2010,). The study focuses on IPOs are under-priced on the initiallisting day and thereafter underperforms compared to the market benchmark. It also examines the usefulness of IPO characteristics at the time of issue to seek an explanation for the post-issue price performance. Another contribution of this paper is the evaluation of the long-run post-issue price performance of Indian IPOs.

STATEMENT OF PROBLEM

The stocks have risk which comprises of either unique risk also called as diversifiable risk or unsystematic risk and market risk also called as non-diversifiable risk or systematic risk. There are few problems which reveal the necessity to analyze the risk and returns of the IPO'S. Like, the issues are newly in to the market, we can neither predict the risk involved nor the future performance of the stock. Many IPO'S have not performed well due to which investors have incurred losses. The movement of Sensex +depends on the performance of the company's stock. If a particular industry is not in a booming stage, then the stocks of companies related to that industry will be affected. This study made suggests about the performance of the company after the issue of IPO'S.

OBJECTIVES OF THE STUDY

1) To study post issue performance of the selected IPO'S made during the period from April 2011 to March 2012.
2) To study the basis of arriving at issue price(whether undervalued or overvalued)
3) To study whether the actual returns of the stock meats the expected returns of the investors.

SCOPE OF THE STUDY

The IPO's are selected from the period April 2011 to March 2012. On the basis of the issue sizes declared by the company or ranked in descending order and are selected. One year prices of the stock from the date of listing and the Sensex for the same period have been taken so as to calculate the annual returns.

RESEARCH METHODOLOGY

a. Sample size:-

Out of 40 IPO's made during period April 2011 to March 2012 a sample of 20 IPO's are picked up on the basis of their issue size and same as presented in the following table.

Table 1

The following table is the sample of 20 IPOs selected and ranked in descending order based on the issue size.

Rank	Scrip Name	Listing Date	Listing Price	Issue size
			Rs.	Rs. Cr
1	Power finance corporation Ltd	10-May-11	214.1	4578.2
2	L & T finance Holdings Ltd	12-Aug-11	49.95	1245
3	Muthoot finance Ltd	06-May-11	176.25	901.25
4	Future ventures India Ltd	10-May-11	8.3	750
5	Multi commodity exchange of India Ltd	09-Mar-12	1297.05	663.31
6	Innovetinve industries Ltd	13-May-11	93.6	219.58
7	National Buildings Construction Corporation Ltd	12-Apr-12	97.05	127.2
8	AanjaneyaLifecare Ltd	27-May-11	311.25	117
9	Tree House Education and accessories Ltd	26-Aug-11	116.55	113.83
10	Flexituff International Ltd	19-Oct-11	166.4	104.63
11	M & B switchgears Ltd	20-Oct-11	31.75	93
12	Taksheel solutions Ltd	19-Oct-11	55.85	82.5
13	Inventure growth and securities Ltd	04-Aug-11	51.99	81.9
14	Birla Pacific Medspa Ltd	07-Jul-11	25.35	65.18
15	Brooks laboratories Ltd	05-Sep-11	60.2	63
16	Servalakshmi paper ltd	12-May-11	19	60
17	PrakashConstrowell Ltd	04-Oct-11	229.5	60
18	TijariaPolypipes Ltd	14-Oct-11	18.1	60
19	Bharatiya global Info media Ltd	28-Jul-11	30.95	55.1
20	Paramount print packaging Ltd	09-May-11	26.65	45.83

b. Data Collection:-

The data collected is secondary data. The source of secondary data is data based called PROWESS developed by CMIE (Centre for Monitoring Indian Economy). The data is regarding the daily adjusted closing prices of stock and market. The information's regarding basis of issue prices taken from the source of red herring prospectus. The risk free rate of return is taken from the annual report of Reserve Bank of India 2013.

c. Analysis tools:-

The research is designed by using the analysis tools which are standard deviations, which measures the risk involved in stock. Beta, measures the sensitivity of stock to market. Correlation, explains the company movements between two variables i.e., Stock returns and market returns and CAPM (Capital Asset Pricing Model), which measures the expected returns of stock.

ANALYSIS AND INTERPRETATION

Table-2

The consolidation of returns on listing price, listing gain or loss and returns on issue price

Sl.no	Company name	Returns on listing price	Rank	Listing gain or loss	Rank	Returns on issue price	Rank
1	Power finance corporation ltd	-38.79	9	-28.4	11	-33.47	11
2	L & t finance holdings ltd	-12	7	5.47	8	5.3	7
3	Muthoot finance ltd	-40.63	10	-32.9	12	-3.99	8
4	Future ventures India ltd	5.16	5	-20.5	10	-22.9	10
5	Multi commodity exchange of India ltd	-28.12	8	-5.13	9	-5.2	9
6	Innovetinve industries ltd	21.19	3	8.92	7	8.5	6
7	National buildings construction corporation ltd	29.49	2	35.8	4	30.58	3
8	Aanjaneyalifecare ltd	-56.67	12	129	1	8.67	1
9	Tree house education and accessories ltd	72.6	1	92.8	2	65.56	2
10	Flexituff international ltd	13.97	4	32	5	27.7	4
11	M & b switchgears ltd	-62.82	13	90.4	3	-234	18
12	Taksheel solutions ltd	-153.5	18	-91.4	19	-245.4	19
13	Inventure growth and securities ltd	-90.09	16	-82	18	-171.2	16
14	Birla pacific medspa ltd	-166.79	20	-56	13	-82.3	12
15	Brooks laboratories ltd	-130	16	-81	17	-170	15
16	Servalakshmi paper ltd	-135.5	17	-74.2	15	-135.5	13
17	Prakashconstrowell ltd	-41.03	11	18.9	6	17.3	5
18	Tijariapolypipes ltd	-78.8	14	-63.8	14	-180.4	17
19	Bharatiya global info media ltd	-0.29	6	-92.2	20	-255.19	20
20	Paramount print packaging ltd	-161.1	19	-78.1	16	-154.74	14

Table -3 The Karl Pearson's Rank correlation

Karl Pearson's Rank correlation	Coefficient
Rank correlation of listing price and listing gain or loss	**0.5737**
Rank correlation of listing gain or loss and returns on issue price	**0.7955**
Rank correlation of listing price and returns on issue price	**0.5947**

Interpretation:-

1. From the above data calculation Coefficient 0.573 shows that there is a moderate degree of correlation between listing price and listing gain or loss.
2. From the above data calculation Coefficient 0.7955 shows that there is a high degree of correlation between listing gain or loss and returns on issue price.
3. From the above data calculation Coefficient 0.5947 shows that there is a moderate degree of correlation between listing price and returns on issue price.

FINDINGS

1. Out of 20 companies 4 companies are overvalued 12 companies are undervalued and the remaining companies Industry P/E are not available so cannot determine.
2. The table under the summary of data analysis shows the three parameter, annual return, percentage listing gain/ loss and percentage gain/loss in price after one year. The finding made is that when there is listing gain, there is also a gain in price after one year.

3. Annual return of stocks is a common measure of performance of stock. When annual return compared with the expected return, out of 20 companies 5 companies have realized more return than the expectations of investors.
4. regarding percentage returns on listing price, Tree House Education and accessories Ltd has given maximum return of 72.6%.and Birla Pacific Medspa Ltd has given the negative of -166.79%.
5. Regarding percentage listing gain/loss AanjaneyaLifecare Ltd has given the maximum gain of 128.58%.and Bharatiya global Info media Ltd has given the negative return of -92.2%.
6. Regarding percentage on returns on issue price AanjaneyaLifecare Ltd has given the maximum return of 82.67% and Bharatiya global Info media Ltd has given the negative return of -255.19%.
7. There is a high degree of correlation between listing gain or loss and returns on issue price whereas, there is moderate degree of correlation between listing price and listing gain or loss and listing price and returns on issue price

CONCLUSION

Conclusion made is that during the year 2011-12 majority of the IPO's have not performed well as the immaterial of the price fluctuation above the issues prices of those companies have realized negative returns and those stocks whose price fluctuated below issue price, have realized positive returns. Thus, conclusion made is that fluctuation depends not only on performance of the company but due to speculations made and external factors.

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