



A Study On Performance Of Initial Public Offering, An Empirical Evidence From The Indian Market.

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Abstract: An initial public offering (IPO) has become one of the preferred investments for investors. In recent years, many companies have come up with IPOs to raise funds to meet their requirements. Investing in an IPO is considered a risky investment because the market behavior is not known, especially in a volatile share market. The performance of the IPO varies in accordance with the market, i.e., from bullish to bearish. The interests of the investors are influenced by the market trend and, thus, the performance of the IPO. IPOs can be a risky investment. For the individual investor, it is tough to predict the performance of a stock or share on its initial day of trading. In this study, the performance of IPOs from offer price to closing price on the trading day in India during 2022, listed on the Indian Stock Exchange, is examined. Researchers found that there is, on average, a significantly positive return. This paper analyses the performance IPOs for the companies listed in NSE and BSE.

Keywords: Initial public offering, Indian Market, IPO performance, Listing Gains, Linear regression, paired T-tests.

INTRODUCTION

The Indian Capital Market has witnessed significant surge in Initial Public Offerings (IPOs), making them a lucrative investment avenue and a significant topic for academic research. An IPO means an offer of specified securities by an unlisted Issuer to the public for subscription and may include an Offer for Sale of specified securities to the public by any existing holder of such securities in an unlisted Issuer.”, Putting into simple terms, IPO refers to the process by which a privately held company offers its share for the first time to the general public. Understanding the performance of these offerings is crucial for investors and policymakers. This research paper examines the main-board IPOs performance in the Indian market, focusing on key factors influencing their success. The study uses a comprehensive approach, analysing pricing levels, post-listing returns. It also investigates the influence of factors such as company characteristics such as issue size, issue price, age, subscription rate, financial performance, and market conditions. The findings will contribute to a better understanding of the risks and rewards associated with IPO investments, aiding individual investors in making informed decisions. The research findings can also inform regulatory policies aimed at fostering a healthy and efficient primary market in India. The paper compares the performance of a set of main-board IPOs listed in BSE and NSE during the year 2022.

STATEMENT OF THE PROBLEM:

IPOs are often considered as investment opportunities that can generate significant profits on listing day as well as long term. The performance of the IPO is determined by factors such as issue size, over-subscription, firm age, market dynamics, investor sentiment and financial factors. However, IPO's success remains uncertain. Investors are also sceptical whether to buy stocks on the trading day or keep them for a short period of time. This paper investigation of the connection between these characteristics and the success of IPOs on their listing day. If these issues are not addressed, investors may be unable to properly analyse stocks and develop investment strategies.

OBJECTIVES OF THE STUDY:

- To analyse sector wise listing day performance of the IPO.
- To examine whether the IPO companies are underpriced or overpriced.
- To identify factors affecting the listing day performance of the IPO.
- To analyse the company's financial performance before and after the IPO.

HYPOTHESES:

H₀₁: The age of the firm does not have a significant impact on the listing day performance of companies.

H₀₂: The offer size does not have a significant impact on the listing day performance of IPOs.

H₀₃: The offer price does not have a significant impact on the listing day performance of IPOs.

H₀₄: The subscription rate does not have a significant impact on the listing day performance of IPOs.

H₀₅: The Grey Market Price (GMP) does not have a significant impact on the listing day performance of IPOs.

H₀₆: There is no significant relation between Financial Ratios before IPO and after IPO.

RESEARCH METHODOLOGY:

Data Collection:

The study used only secondary data. Websites like chittorgarh.com, nseindia.com, and bseindia.com, valueresearchonline.com served as sources for the study's secondary data.

Sample Method:

The sample used in this study consists of all Mainboard IPOs listed on the National Stock Exchange (NSE) and Bombay Stock Exchange from January 2022 to December 2022. Data taken from 40 mainboard IPOs were considered for analysis.

Tools used for Analysis:

The data were further analysed with the help of statistical software (SPSS 28). Linear regression and paired T-tests were used as statistical tools in the study.

Data Analysis Method:

Measure of IPO Performance: - Consistent with the standard methodology, the Listing Day Return is calculated as the percentage change from the issue price to the closing price on that day in the secondary market.

$$R_i = (P_i - P_0) / P_0$$

Where, R_i = Return of i security on listing day, P_i = Closing Price of i security on listing day, P_0 = offer price of i security.

Dependent Variables:

- Age
- Issue Price
- Issue Size
- Subscription Rate

Independent Variables:

- Listing Day Returns

LIMITATIONS OF THE STUDY:

- The study is limited to the year 2022, and its findings may not be generalized to other time periods.
- The analysis focuses only on mainboard Indian IPOs Issued In 2022
- Market violations and investor sentiment can fluctuate and may impact the pricing and returns of IPOs.
- Due to time constraints, the scope of this project may be restricted, potentially limiting the depth of analysis and the inclusion of additional variables or factors.

REVIEW OF LITERATURE:

Ajay Yadav, Jaya Mamta Prosad and Sumanjeet (2023) investigated the correlation between financial performance indicators and IPO pricing in India. Utilizing nine variables, including NAV, ROA, and EPS, they found that NAV, ROA, PAT, and RONW have significant effects on IPO offer prices. The study emphasises the importance of pre-IPO financial performance metrics, with NAV being the most influential factor.

Mehmood et. al. (2021) conducted a review on under-pricing in IPOs across developing, developed, and emerging markets. Their study found that under-pricing is more prevalent in emerging markets due to information asymmetry. Emerging market issuers intentionally underprice IPOs to show quality. The study also identified factors affecting initial returns and varying lengths of under-pricing based on market conditions. Overall, the research highlighted the complexity of under-pricing in the global financial market.

Gnawali and Niroula (2021) found that investor perceptions of IPOs in Nepal are influenced by corporate performance, reputation, industry sector, and market data. Factors such as corporate performance, goodwill, sector, and market knowledge impact IPO investments.

Manu and Saini (2020) conducted a study on Indian IPOs issued in 2017, finding that most were underpriced in the short run. Factors like the promoter's holding post-issue, issue size, and ownership sector were analysed but had no significant impact from independent variables on the returns of selected companies.

Tanted and Mustafa (2019) analyzed the returns between IPO issue price and listing day price to help investors make informed decisions. They found that there was no significant difference between IPO offered price and listing day prices over a 10-year period. However, the opening price on the listing day was higher than the IPO price, and the closing price on the listing day was higher than the opening price. They also observed a correlation between higher IPO prices and higher closing day prices.

Dhamija and Arora (2017) examined 377 Indian IPOs from 2005-2015, discovering initial market outperformance followed by underperformance due to factors like lead manager prestige, issuer type, and promoters' holdings.

Sahoo (2017) conducted a study on 135 IPOs in the Indian market between 2009-2014, finding that anchor-backed IPOs had lower under-pricing, higher liquidity, and lower volatility in the short run compared to non-anchor backed IPOs, suggesting a positive impact of anchor investments.

Murthy, Singh, and Gupta (2016) found that transparency from book building in IPOs is more valuable to retail investors than grading. Older firms receive higher grades, but larger size issues do not guarantee better grades. The study emphasizes the need for innovative regulations to improve investment evaluation in the Indian capital market.

Abdul Rehman (2014) emphasized corporate responsibility for listed companies in his study on 69 IPOs. They found that investors saw an average return of 53.82% on the first day of trading and analysed performance across sectors like real estate and financial services. The CAR model was used to estimate returns.

Kumar (2015) discussed the significance of analysing the post-issue performance of Indian IPOs from 2007-2012, finding that retail investors focusing solely on listing day gains experienced poor long-term results. Direct subscription investors, however, saw positive market-adjusted returns. The study also highlighted how book-built IPOs were underpriced, impacting short and long-term performance.

Table 1: List of Companies taken for the study

1.Radiant Cash Management Services Ltd	21.Campus Activewear Ltd
2.Uniparts India Ltd	22.Veranda Learning Solutions Ltd
3.Kaynes Technology India Ltd	23.Uma Exports Ltd
4.DCX Systems Ltd	24.Vedant Fashions Ltd
5.Tracxn Technologies Ltd	25.KFin Technologies Ltd
6.Harsha Engineers International Ltd	26.Abans Holdings Ltd
7.Dreamfolks Services Ltd	27.Five Star Business Finance Ltd
8.Venus Pipes & Tubes Ltd	28.Fusion Micro Finance Ltd
9.Delhivery Ltd	29.Tamilnadu Mercantile Bank Ltd
10.Hariom Pipe Industries Ltd	30.Prudent Corporate Advisory Services Ltd
11.Syrma SGS Technology Ltd	31.Life Insurance Corporation of India
12.Sah Polymers Ltd	32.AGS Transact Technologies Ltd
13.Dharmaj Crop Guard Ltd	33.Sula Vineyards Ltd
14.Archean Chemical Industries Ltd	34.Bikaji Foods International Ltd
15.Aether Industries Ltd	35.Adani Wilmar Ltd
16.Paradeep Phosphates Ltd	36.Global Health Ltd
17.Elin Electronics Ltd	37.Rainbow Children's Medicare Ltd
18.Landmark Cars Ltd	38.eMudhra Ltd
19.Electronics Mart India Ltd	39.Keystone Realtors Ltd
20.Ethos Ltd	40.Inox Green Energy Services Ltd

DATA ANALYSIS AND INTERPRETATION:**Analysis of listing day performance of IPOs issued in the year 2022:****Table 2: Classifications of Sectors of IPOs**

SECTORS	COMPANY NAME	LISTING DAY RETURN	VALUATION
INDUSTRIAL:	Radiant Cash Management Services Ltd	11.60	Under-priced
	Uniparts India Ltd	-6.49	Over-priced
	Kaynes Technology India Ltd	17.56	Under-priced
	DCX Systems Ltd	49.18	Under-priced
	Tracxn Technologies Ltd	16.69	Under-priced
	Harsha Engineers International Ltd	47.24	Under-priced
	Dreamfolks Services Ltd	41.92	Under-priced
	Venus Pipes & Tubes Ltd	7.90	Under-priced
	Delhivery Ltd	10.32	Under-priced
	Hariom Pipe Industries Ltd	46.86	Under-priced
MATERIAL:	Syrma SGS Technology Ltd	42.30	Under-priced
	Sah Polymers Ltd	37.31	Under-priced
	Dharmaj Crop Guard Ltd	12.41	Under-priced
	Archean Chemical Industries Ltd	12.52	Under-priced
	Aether Industries Ltd	20.99	Under-priced
	Paradeep Phosphates Ltd	4.64	Under-priced
	Elin Electronics Ltd	-7.77	Over-priced
	Landmark Cars Ltd	-9.08	Over-priced
	Electronics Mart India Ltd	43.14	Under-priced

CONSUMER DISCRETIONARY:	Ethos Ltd	-8.59	Over-priced
	Campus Activewear Ltd	29.66	Under-priced
	Veranda Learning Solutions Ltd	17.08	Under-priced
	Uma Exports Ltd	23.53	Under-priced
	Vedant Fashions Ltd	7.95	Under-priced
FINANCIAL:	KFin Technologies Ltd	-0.55	Over-priced
	Abans Holdings Ltd	-19.98	Over-priced
	Five Star Business Finance Ltd	3.27	Under-priced
	Fusion Micro Finance Ltd	-11.71	Over-priced
	Tamilnadu Mercantile Bank Ltd	-0.30	Over-priced
	Prudent Corporate Advisory Services Ltd	-10.68	Over-priced
	Life Insurance Corporation of India	-7.75	Over-priced
	AGS Transact Technologies Ltd	-7.83	Over-priced
CONSUMER STAPLE:	Sula Vineyards Ltd	-7.24	Over-priced
	Bikaji Foods International Ltd	5.82	Under-priced
	Adani Wilmar Ltd	15.30	Under-priced
OTHERS:	Global Health Ltd	23.71	Under-priced
	Rainbow Children's Medicare Ltd	-16.96	Over-priced
	eMudhra Ltd	1.11	Under-priced
	Keystone Realtors Ltd	3.11	Under-priced
	Inox Green Energy Services Ltd	-9.08	Over-priced

Source: Secondary Data

Companies are classified under The Global Industry Classification Standard (GICS)

SECTORS	No.of. IPOs	Avg. Listing Day Return (%)
Material	5	26
Industrial	11	17
Consumer Discretionary	8	12
Financial	8	-7
Consumer Staple	3	5
Other	5	0.37
TOTAL	40	

Interpretation: The table shows the average listing day return percentages for initial public offerings (IPOs) in various sectors, with a summary of 40 IPOs. The Materials sector had the highest average return of 26% from 5 IPOs, followed by the Industrial sector at 17% from 11 IPOs. The Consumer Discretionary sector had eight IPOs with a 12% return, while the Consumer Staples sector had three with a 5% return. In contrast, the Financials sector had a -7% average return from 8 IPOs, while the others sector had a negligible average return of 0.37% from 5 IPOs. The data indicate that the Materials and Industrials sectors outperformed others, while the Financials sector underperformed. Overall, the data shows a wide range of investment opportunities that had varying degrees of success on the first trading day.

SECTORS	Overpriced (Negative returns)	Underpriced (Positive Return)
Material	-	5
Industrial	1	10
Consumer Discretionary	3	5
Financial	7	1
Consumer Staple	1	2
Others	2	3
TOTAL	14 (35%)	26 (65%)

Interpretation: The table analysed the pricing and returns of various IPOs, revealing that 65% were underpriced and had positive returns, while 35% were overpriced and had negative returns. The industrials sector had the highest number of underpriced IPOs, indicating favourable outcomes, while the financial sector had a significant number of overpriced IPOs, leading to negative returns. The materials sector also showed positive results, with no overpriced IPOs. The consumer discretionary sector had a balanced distribution of overpriced and underpriced IPOs. The 'Others' category had a mix of overpriced and underpriced IPOs, while the Consumer Staples sector had the least number of IPOs in the dataset. Overall, the data suggests that most IPOs were underpriced, particularly in the industrial sector, providing valuable insights for investors and analysts when considering IPO investments in different sectors.

ANOVA ^a						
FACTOR		Sum of Squares	Df	Mean Square	F	Sig.
AGE	Regression	1072.003	1	1072.003	2.968	.093 ^b
	Residual	13727.097	38	361.239		
	Total	14799.100	39			
OFFER SIZE	Regression	431.962	1	431.962	1.143	.292 ^b
	Residual	14367.138	38	378.083		
	Total	14799.100	39			
OFFER PRICE	Regression	2250.316	1	2250.316	6.814	.013 ^b
	Residual	12548.784	38	330.231		
	Total	14799.100	39			
SUBSCRIPTION RATE	Regression	7203.675	1	7203.675	36.040	<.001 ^b
	Residual	7595.425	38	199.880		
	Total	14799.100	39			
GREY MARKET PRICE	Regression	4459.929	1	4459.929	16.392	<.001 ^b
	Residual	10339.171	38	272.083		
	Total	14799.100	39			

a. **Dependent Variable:** Listing

b. **Predictors:** (Constant), Age, Offer Size, Offer Price, Subscription Rate, Grey Market Price.

Coefficients ^a						
FACTOR		Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.
		B	Std. Error			
AGE	(Constant)	17.428	4.915		3.546	.001
	Age	-.296	.172	-.269	-1.723	.093
OFFER SIZE	(Constant)	12.228	3.380		3.618	<.001
	Offer size	-.001	.001	-.171	-1.069	.292
OFFER PRICE	(Constant)	22.328	5.292		4.219	<.001
	Offer price	-.033	.013	-.390	-2.610	.013
SUBSCRIPTION RATE	(Constant)	.385	2.822		.136	.892
	Subscription rate	.631	.105	.698	6.003	<.001
GREY MARKET PRICE	(Constant)	5.143	2.950		1.743	.089
	GMP	.228	.056	.549	4.049	<.001

a. Dependent Variable: Listing

Interpretation:

Table 6: Hypothesis Testing		
Hypothesis	sig.	Result
H₀₁: The age of the firm does not have a significant impact on the listing day performance of companies.	.093	Accepted
H₀₂: The offer size does not have a significant impact on the listing day performance of IPOs.	.292	Accepted
H₀₃: The offer price does not have a significant impact on the listing day performance of IPOs.	.013	Rejected
H₀₄: The subscription rate does not have a significant impact on the listing day performance of IPOs	<.001	Rejected
H₀₅: The Grey Market Price does not have a significant impact on the listing day performance of companies.	<.001	Rejected

The statistical analysis suggests that the offer price, subscription rate, and Grey Market Price (GMP) have significant impacts on the listing day performance of IPOs, with the subscription rate and GMP showing a positive relationship. The age and offer size of the firm do not appear to have a significant impact on listing day performance based on this analysis.

Table 7: The result of Paired Samples T- Test					
		Mean	T	Df	Sig. (2tailed)
Pair 1	Current Ratio	-.41000	-.764	39	.450
Pair 2	Debt to Equity	1.73220	2.637	39	.018
Pair 3	Asset Turnover Ratio	-.08100	-.955	39	.345
Pair 4	Return on Asset	- 8.31675	-2.270	39	.029

Interpretation: The table displayed the outcomes of a Paired Samples T-Test examining the financial performance of companies pre and post their Initial Public Offerings (IPOs) using four different financial ratios. The Current Ratio showed a non-significant mean difference, Debt to Equity Ratio demonstrated a significant increase, Asset Turnover Ratio displayed a non-significant change, and Return on Asset revealed a significant decrease following the IPO. The results confirmed that the alterations in Debt-to-Equity Ratio and Return on Asset were statistically significant, while the changes in Current Ratio and Asset Turnover Ratio were not statistically significant. This analysis indicates that companies experience significant shifts in their financial performance after going public, particularly in terms of debt level and asset profitability.

Table 8: Hypothesis Testing	
Hypothesis	Result
H₀₆: There is no significant relation between Financial Ratios before IPO and after IPO.	Rejected

IV. RESULTS AND DISCUSSION

FINDINGS:

Sector Performance of Listing Day Returns:

- Materials and Industrials sectors had the highest average listing day returns of 17% and 26% respectively.
- Financials sector underperformed with negative average returns of -7%.
- Consumer Discretionary and Consumer Staples had moderate returns of 12% and 5% respectively.
- Other Sectors including Health Care, IT-services, Real estate, Utility had a negligible average return of 0.37%.

IPO Valuation:

- Majority of IPOs (65%) were underpriced, leading to positive returns.
- Financial sector (7) had the most overpriced IPOs, leading to negative returns for investors.
- Industrial sector (10) had the most underpriced IPOs.

Factors Affecting Listing Day Performance:

- Age and offer size of the company do not significantly impact performance.
- Offer price has a significant impact on Listing Day performance.
- Subscription rate and Grey Market Price have significant positive impact on Listing Day Performance.

Financial Performance After IPO:

- Current Ratio and Asset Turnover Ratio had negative impact After IPO.
- Debt to Equity Ratio and Return on Asset had Positive impact After IPO.

SUGGESTION:

- The study suggests the investors to sell the shares that are overpriced by the end of the listing day to minimize the losses and
- Investors should pay close attention to factors like offer price, subscription rate and Grey Market Price, as these have shown significant positive impacts on listing day performance
- Despite the sectoral variations in listing day returns and IPO valuations, diversification remains key to managing risk. Investors should spread their investments across different sectors and companies to reduce sector-specific risks and capture potential opportunities in various industries.
- Investors should not only focus on listing day performance but also consider long-term growth prospects. Comprehensive analysis of financials, management quality, industry trends, and competitive positioning is crucial.
- Monitoring post IPO financial performance metrics is vital for investors and companies. While some ratios like current ratio and asset turnover ratio showed negative impacts, focusing on debt-to-equity ratio and profitability metrics can be beneficial.

CONCLUSION:

The study examines the factors affecting listing day returns across different sectors, along with the financial performance of the companies before and after IPO involved. Based on empirical analysis, the study draws the following conclusions.

The study reveals significant variations in listing day returns across sectors. Materials and Industrial had the highest average returns, while financial sector underperformed with negative returns and other sectors saw negligible gains. Interestingly, the majority of IPOs were underpriced, contributing to positive returns to investor. Financial sector stood out for having the most overpriced offerings, leading to investor losses. Offer price significantly impacted listing day performance, with higher prices leading to lower returns. Subscription rate and grey market price also positively influenced listing day performance. While company age and size didn't significantly affect performance, the study identified some interesting trends in post-IPO financial health. Current Ratio and Asset Turnover Ratio exhibited a negative trend after going public, while Debt to Equity Ratio and Return on Assets had a positive trend following the IPO.

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