

A Study of Market Performance of Venture Capital / Private Equity Backed IPOs

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Abstract: IPOs are becoming a popular exit route for venture capital / Private equity players. Being fully aware of the industry prospects, company performance in future and also the market conditions, expert investors as they are, these private equity/ venture capital players are likely to price the IPO issue to ensure maximum returns on their investments. This paper discusses the market performance of select companies after the IPOs and concludes that the in both the cases selected as sample, the IPO investors have been saddled with investments which have made losses.

Index Terms: Venture Capital, Private Equity, IPO, Market Price.

INTRODUCTION

Venture Capital / Private Equity (VC/PE) investments have assumed importance in the context of the government of India's push for rapid growth of entrepreneurship India. Many VC/PE companies had backed the promoters in their entrepreneurship journey. While some have succeeded in getting returns, others had to book loss while selling or write off the investments.

There are two routes for the exit of PE/VC investors for their investments made. One is the sale to another VC/ PE, the details of which are not available publicly. Another route is the IPO route. In this, the investors offer their shares for sale and get it listed on the stock exchanges. In this route, the exiting investors sell their shares without any new accretions to the company.

When an offer for sale through an IPO is planned, the existing investors including promoters, VC/PE companies decide the premium. The trend is getting the highest possible price and leave it to market forces after that regarding the price performance of the shares. Experts are also of the opinion that it is a positive for IPOs if it is backed by investments by PE/VC¹.

Since there has been a large number of IPOs involving VC/PE investors, a study of the market performance of the already issued IPOs can be used as a guide for evaluation of the issue price.

METHODOLOGY

A sample of two companies has been selected with the criteria that the companies should have been listed for at least two years before November 2017. The company should have made an offer for sale, and there should have been a VC/PE investor as a seller in the offer for sale.

Accordingly, the companies UFO moviez and Ortel communications had been selected randomly for the study.

A secondary source of data is used for the study. The closing prices at the Bombay Stock Exchange was taken on a monthly basis. The data for the study i.e. stock prices were obtained from the website of the Bombay Stock Exchange.

Based on price data, the monthly returns of the sample companies were calculated. This monthly return was compared with a peer company's return. The peer company was selected by line of activity of Ortel and UFO moviez. Accordingly, Sun TV and PVR Cinemas was selected for comparison.

DATA ANALYSIS AND INTERPRETATION

The data was analyzed through line graphs to understand and interpret the comparative trends between the sample companies and their peers. The trends are given in fig 1.

Fig 1(a): comparative market price of PVR Cinemas and UFO moviez

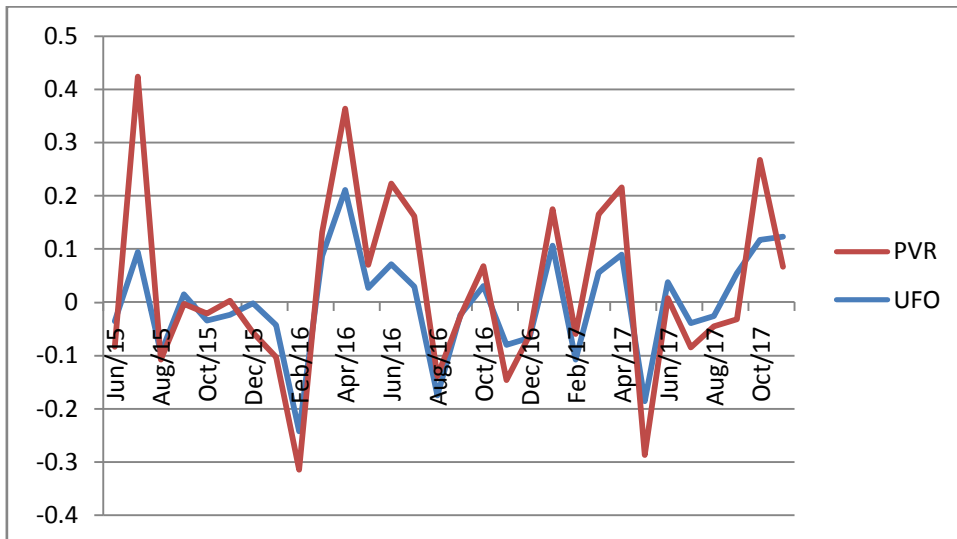
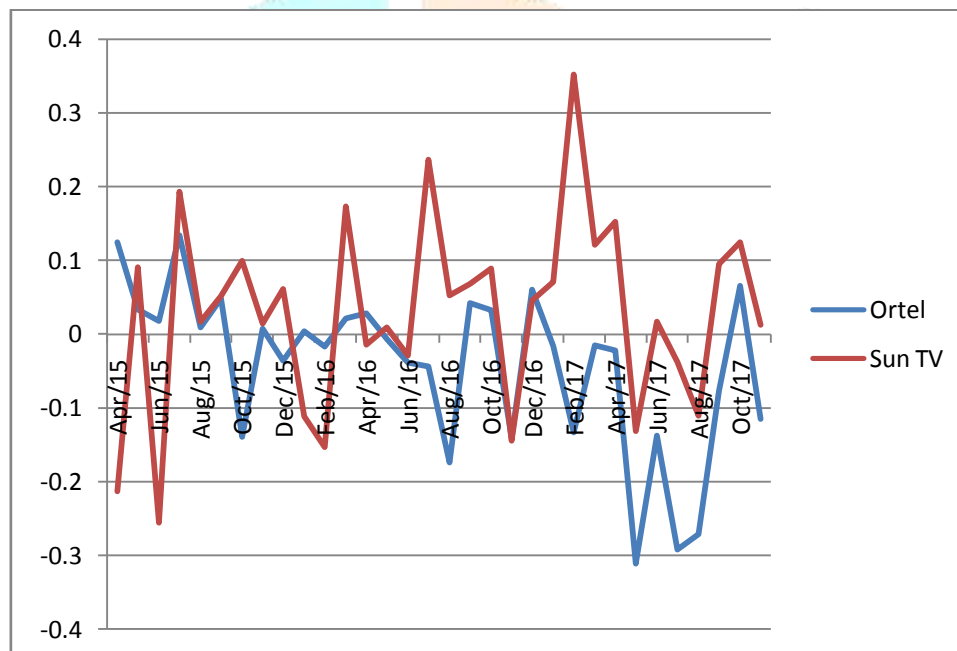


Fig 1(b): Comparative market price of Ortel and Sun TV



It can be seen that in the case of UFO moviez, the market price for the past two years has been almost in sync with its peer i.e.PVR cinemas. This indicates that the IPO had been fairly priced.

However, in the case of ORTEL, a wide variation in the price can be seen when compared to its peer SUN TV. Though the changes in the price are in sync with its competitor, the gap between ORTEL and Sun TV seems to be wide.

The huge variation can be due to

- pricing higher
- script falling out of favour with the investors
- reflection of the future expected the performance of the company as perceived by the investors.

A comparison with the issue price and returns to the investors of the two sample companies' IPO provides further insights.

In the case of ORTEL, the issue price had been Rs.181 in March 2015 and had a closing pricing of above the issue price only for about five months between July 2015 and November 2015. After that, the stock price had never been anywhere near the issue price and during end November the stock price had closed at around Rs.30/-

In the case of UFO Moviez, the issue price was Rs.625 in April 2015. Since listing, the price of the company's share has never touched the issue price and leaving the investors stranded.

CONCLUSION

This paper discusses the stock market performance of two VC / PE-backed IPOs which had hit the market in 2015.

On analysis of the price trends, it is clear that the investors had been stranded with their investments because the market price had been much lower than the IPO price. This indicates that the existing investors before IPO had short changed the general investors through the IPO route. Such pricing behaviour ought to be discouraged.

One way to prevent this sort unfortunate incidents can be to ensure that the merchant bankers should be mandated to buy the stocks at the IPO price for the IPO investors for at least 1 year. This will send a strong message to all the stakeholders that gullible investors are not taken for a ride in spite of stringent disclosure norms set by SEBI.

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