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REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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IPO PERFORMANCE AND ITS RELATION WITH RETAIL INVESTORS' SUBSCRIPTION AND GRADE

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ABSTRACT

An Initial Public Offering (IPO) is the financial instrument by which a company offers stocks to the general public for the first time, and formally becomes a publicly traded company. As per SEBI's requirement, a company planning to get its issue graded before offering it to the general public. IPO grading shows the fundamentals of IPOs and contains five point scale ranging from 1-5. This scale shows score indicating stronger or weaker fundamentals of company which is going for IPO. On May 1, 2007 mandatory IPO grading system was introduced by Indian's market regulator SEBI. The purpose for this mandatory grading system was that the retail investors who are usually not having inadequate information about the issue fundamentals of company. The belief that ' higher grades leads to better IPO performance ' has been proved to be a myth over or over grading . Out of the total 35 public issues that were lunched and listed on the NSE during period from January 2010 to December 2013. Furthermore, we conducted regression analysis to know influence of IPO Grading on listing day gain and retail investors subscriptions. Finally, we concluded that IPO grading has positive influence towards listing gain and there is a moderate relationship between retail investors subscriptions and listing day returns.
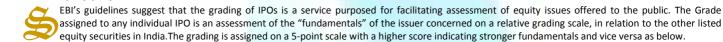
KEYWORDS
IPO, IPO grading , listing day returns, retail investors.

JEL CLASSIFICATION
G12, G24, G32.

1. INTRODUCTION

EBI's guidelines suggest that the grading of IPOs is a service purposed for facilitating assessment of equity issues offered to the public. The Grade assigned to any individual IPO is an assessment of the "fundamentals" of the issuer concerned on a relative grading scale, in relation to the other listed equity securities in India.The grading is assigned on a 5-point scale with a higher score indicating stronger fundamentals and vice versa as below.

- ➢ IPO grade 1: Poor fundamentals
- ➢ IPO grade 2: Below-average fundamentals
- ➢ IPO grade 3: Average fundamentals
- ➢ IPO grade 4: Above-average fundamentals
- ➢ IPO grade 5: Strong fundamentals

IPO grading is an assessment done prior to the IPO issue and relies significantly on the draft prospectus filed with SEBI. Grading is done on the basis of some quantitative parameters like prospects of the industry and financial strength and some qualitative parameters such as management capability. SEBI said that IPO grading is not a recommendation to buy, sell or hold the securities. It is not a comment on the valuation or pricing of the IPO nor an indication of the listing price of the securities. There was no incentive for the companies to rate their IPOs. Even a good company would not go for the rating because of fearing that if it gets a bad rating, its public issue might suffer even having strong fundamentals. Similarly, a bad company would not go for the rating because of fearing that its cover ups might get exposed with a poor rating. So by looking these situation, SEBI decided to make IPO grading a mandatory exercise effective as of May 1, 2007.

SEBI chairman M. Damodaran explains the decision to make IPO grading a mandatory exercise: "When the market started going up suddenly a lot of companies started coming to the market. It is not that only the best and the brightest continue to come to the market, there are a lot of other companies like 'vanishing companies' which will raise money and never spend for the intended purpose who started entering the market. So by mandatory IPO grading system will prevent vanishing companies in future."

2. REVIEW OF LITERATURE

When looking at previous research on IPO , according to Chan (2010) has established a link between retail sentiment and the pricing of IPO shares. He gives some example of study that has documented a positive relationship between retail investors' demand for IPO shares and IPOs short term performance , which shows that investors are able to pick up high returns of IPO on first day. **Deb &Marisetty (2007)** studied the efficacy of IPO grading. Firstly, the results show that the under pricing of IPO is lower in post grading regime. Secondly, the retail investors respond to IPO grading and finally, better graded IPOs attract higher liquidity and exhibit lower risk. **Jain and Sharma (2008)** in their paper explored and explain the concept of IPO grading and its underlying rationale. They provided an objective evaluation of the costs and benefits associated with IPO grading. **Keloharju (1993)** studies a sample of 80 initial public offerings in Finland between 1984 and 1989 and suggests that there is evidence for the long-run underperformance of the IPO firms in Finland.**Krishnamurati,Thong, and Vishwanath**(2009) also analyzed the performance of various IPOs with respect to the grade received found it to be a source of useful inputs relevant to the retail investors.**Deb and Marisetty** (2008) examined the efficiency of the unique certification mechanism introduced by SEBI and analyzed numerous IPOs. They found that retail investors' respondent to the IPO grading quality, i.e.retail investors showed more interest in better quality IPOs and post issue result indicates that high quality or better graded IPOs attract higher liquidity and exhibit low risk.**Poudyai**(2008) found a positive relationship between IPO grades and Retail subscription. He found that grading brings more transparency and information symmetry to the market.**Haldea**(2007) in his article talked about the negative aspect of mandatory system and stressed IPO grading as an uncalled requirement. He suggested that IPO Grading is weak concept and emphasized on the fact that there are chances that a low-grade IPO dose well after listing and low grading can lead to a lost opportunity.

3. THEORETICAL FRAMEWORK

High Graded IPOs lead to More Listing Day Gains as compared to Low Graded IPOs.To analyse this popular belief, Listing Day Gains were calculated as follows:

Listing Day return = $\dfrac{\text{Listing Day Closing Price - Issue Price}}{\text{Issue Price}}$

Retail Subscription = Retail Individual Investors (RIIs) * Shares Offered

Failure rate = $\dfrac{\text{failure IPOs in grade i}}{\text{total IPOs in grade i}}$

Failure rate means negative returns on listing day.

IPO Grading :

The grading is assigned on a 5-point scale with a higher score indicating stronger fundamentals and vice versa as below.

- ➢ IPO grade 1: Poor fundamentals
- ➢ IPO grade 2: Below-average fundamentals
- ➢ IPO grade 3: Average fundamentals
- ➢ IPO grade 4: Above-average fundamentals
- ➢ IPO grade 5: Strong fundamentals

4. OBJECTIVES

1. To identify the relationship between IPO Grade and retail subscription.
2. To identify the relationship between IPO Grade and listing day gain.
3. To identify the failure rate of IPO according to grade.

5. RESEARCH METHODOLOGY

5.1 POPULATION AND SAMPLE SELECTION

Objective of research paper is to identify the relationship between IPOgrading with listing day returns and retail investors' subscription. Therefore study covered data for 35 IPOs listed from January 2010 to December 2013.

Name of IPO		Issue price	Same day closing	Listing date	Grade	Retail subscription
Just Dial IPO		530	612	5-Jun-13	5	6176599.85
V Mart retail Ipo		210	205.25	20-Feb-13	3	1243144
Repco Home Finance Ltd		175	160.85	1-Apr-13	3	2773936.92
Veto switchgears and cables ltd		50	58	13-Dec-12	4	3147105.26
BhartiInfratelltd.ipo		220	191.2	28-Dec-12	4	12561850
PC Jeweller IPO		135	149	27-Dec-12	3	26327700
Tara jewels Ipo		230	229.95	6-Dec-12	3	5666815
VKS Projects Ltd		55	55.6	18-Jul-12	1	3955000
Speciality Restaurants Ltd		150	160.5	30-May-12	4	2259837.8
TribhovandasBhimjiZaveri Ltd.(TBZ)		120	111.2	9-May-12	3	3966667.12
MT Educare Limited		90	90.35	12-Apr-12	4	9668228.85
National Buildings Construction Corporation Limited (NBCC)		106	97.05	12-Apr-12	4	14137200
Olympic Cards Ltd		30	28.5	28-Mar-12	1	3977458.788
Multi Commodity Exchange of India Ltd (MCX)		1032	1297.05	9-Mar-12	5	52192659.48
Bharatiya Global Infomedia Ltd (BGIL)		82	30.95	28-Jul-11	2	11901120
VMS Industries Ltd		40	28.5	14-Jun-11	1	8536839.52
SRS Limited IPO		58	33.65	16-Sep-11	3	3920000
Omkar security chemical ltd.		98	46.2	10-Feb-11	3	28066500
Brooks Laboratories Ltd	100		58	5-Sep-11	2	8232000
Indo Thai Securities	74		23	2-Nov-11	3	4690000
Flexituff International Ltd	155		166.4	19-Oct-11	3	3543750
Taksheel Solution Ltd	150		55.85	19-Oct-11	2	11896500
Onelife Capital Advisors Ltd (OCAL)	110		145.9	17-Oct-11	1	2931250
M and B Switchgears Ltd	186		317.55	20-Oct-11	2	4112500
L&T Finance Holdings	52		49.95	12-Aug-11	5	708973041.1
C Mahendra Exports Ltd	110		110.85	20-Jan-11	2	25305000
RDB Rasayans Ltd,	79		26.5	7-Oct-11	2	6237000
PrakashConstrowell Ltd	138		229.5	4-Oct-11	2	7560001.8
PG Electroplast Ltd	210		411.65	26-Sep-11	3	3297630
TD Power Systems Ltd	256		274.8	8-Sep-11	4	1179336.08
Timbor Home Ltd	63		91.2	22-Jun-11	1	18365130
Shilpi Cable Technologies Ltd.	69		47.6	8-Apr-11	1	17270351.28
MOIL Limited (Manganese Ore India Limited)	375		466.5	15-Dec-10	5	378704928
Coal India Limited	245		342.35	04-Nov.10	5	459610256.5
A2Z Maintenance & Engineering Services Ltd	400		328.9	23-Dec-10	4	2463752.94

5.2 HYPOTHESES

1. There is an association between IPO grading and listing day returns.
2. There is significant correlation between IPO Grade & retail subscription.
3. There is significance correlation between IPO grading and listing day returns

5.3 STATISTICAL TOOLS

chi-square, regression analysis

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6. RESULTS AND DISCUSSION AND FINDINGS

IPO grading Vs. listing day returns

TABLE 1: COMPARISON OF GRADE AND LISTING DAY RETURN

IPO grade	Listing day returns	
	Gain	loss
1	3	3
2	3	4
3	3	7
4	4	3
5	4	1

Hypothesis

Ho= there is no association between IPO grade and listing day returns

H1 = there is an association between IPO grade and listing day returns

Results				
	gain	loss		Row Totals
Grade1	3 (2.91) [0.00]	3 (3.09) [0.00]		6
Grade2	3 (3.40) [0.05]	4 (3.60) [0.04]		7
grade3	3 (4.86) [0.71]	7 (5.14) [0.67]		10
grade4	4 (3.40) [0.11]	3 (3.60) [0.10]		7
grade5	4 (2.43) [1.02]	1 (2.57) [0.96]		5
Column Totals	17	18		35 (Grand Total)

The chi-square statistic is 3.6601 .P value is 0.45395. Result is not significant at p<0.05.

IPO PERFORMANCE

Grade	Total IPOs	Failed IPOs	Failure rate (%)
1	6	3	50
2	7	4	57.14285714
3	10	7	70
4	7	3	42.85714286
5	5	1	20

IPO failure rate: After applying the failure rule, we found that the Failure rate decrease with increasing grades except for Grade 2 & grade 3. In the above table depicts clearly the IPO performance based on the NSE Data. The noticeable aspect being that for Grade 3 IPOs, The failure rate is as high as 70%, which is higher than it is for the Grade 2 IPOs. This shows that IPOs with Grade 2 were faring better than the Grade 3 IPOs .Even for Grade 5 issues, which were supposed to be a "strong fundamentals", the Failure rate is 20%. For Grade 1 which was supposed to be a "Poor fundamentals", the Failure rate is 50%. And for Grade 2 and Grade 4, the Failure rate is 57.14% & 42.86% respectively. Therefore the investors have to reassess the significance of IPO grading as a factor while deciding whether or not to subscribe for an issue.

REGRESSION ANALYSIS FOR IPO GRADES AND RETAIL SUBSCRIPTION

Regression Statistics		Explanation
Multiple R	0.478	R = square root of R^2
R^2	0.228	R^2
Adjusted R Square	0.205	Adjusted R^2 used if more than one x variable
Standard Error	133728934.8	This is the sample estimate of the standard deviation of the error u
Observation	35	Number of observations used in the regression (n)

The above gives the overall goodness-of-fit measures: R=0.80

Correlation between Grade and Retail subscription is 0.478 (when squared gives 0.228).Hear the R is positive so it indicates that there is the positive correlation between Grade and Retail subscription. So it is statistically significant.R^2 = 0.228 means that 22.8%, which means that the total variation of dependent variable that is Retail subscription is explained by the independent variable that is Grade.

ANOVA TEST FORIPO GRADES AND RETAIL SUBSCRIPTION

ANOVA					
	Df	SS	MS	F	significance f value
Regression	1	1.74474	1.74474	9.756181791	0.004
Residual	34	5.90153	1.78834		
Total	35	7.64627			

- From the above table, we interpret that significance f value has the associated p value. Since The p-value=0.004, it can be conducted that α = 0.05 Level of significance, Ho is rejected it means model is valid & Retail subscription is explained by grade
- Grade is impact on Retail subscription.

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 99%	Upper 99%
Intercept	-108284107	56449392	-1.92	0.064	-223131258	6563043	-2.6	46007696
Grade	54900921	17576795	3.12	0.004	19140663	90661179	6858678	1.03

h0: β_2 = 1.0 against ha: $\beta_2 \neq 1.0$ at significance level α = 0.05.A simple summary of the above output is that the fitted line is y = -108284107.396 +54900920.865*Grade

Test hypothesis of zero slope coefficient ("test of statistical significance"):The coefficient of Grade has estimated standard error of 17576794.98, t-statistic of 3.1234 and p-value of 0.004. It is therefore statistically significant at significance level α = 0.05 as p < 0.05.

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REGRESSION ANALYSIS OF IPO GRADES LISTING DAY GAINS

Regression Statistics		Explanation
Multiple R	0.349	R=square root of R^2
R Square	0.122	R^2
Adjusted R Square	0.095	Adjusted R^2 used if more than one X variable
Standard Error	0.4271	This is the sample estimated of the slandered deviation of the error u

The above gives the overall goodness-of-fit measures: R<0.80.

Correlation between Grade and Listing Day Gains is 0.349 (when squared gives 0.122).Hear the R is positive so it indicates that there is the positive correlation between Grade and Retail subscription. So it is statistically significant.R^2 = 0.122 means that 12.2%, which means that the total variation of dependent variable that is Listing Day returns is explained by the independent variable that is Grade

ANOVA Test for IPO Grades and Listing Day Gains**:**

VARIABLES ENTERED/REMOVED

Model	Variables Entered	Variables Removed	Method
1	grade[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: listing day returns

From the below table, result shows that significance f value has the associated p value. Since The p-value=0.0399, it can be conducted that α = 0.05 Level of significance, there is a relationship between IPO Grade and "Listing day returns". Hence High Graded IPOs lead to more listing day gains as compared to Low graded IPOs.

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.834858614	0.834859	4.575516	0.039922688
Residual	33	6.021251515	0.182462		
Total	34	6.856110129			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-0.349979853	0.1803102	-1.94099	0.060841	-0.716823713	0.016864007
X Variable 1	0.12009385	0.056143659	2.139046	0.039923	0.005868716	0.234318984

h0: β_2 = 1.0 against ha: β_2 ≠ 1.0 at significance level α = 0.05.

A simple summary of the above output is that the fitted line is

y = -0.349+0.12*Grade

Test hypothesis of zero slope coefficient ("test of statistical significance")

The coefficient of listing day return has estimated standard error of 0.054, t-statistic of 4.57 and p-value of 0.0399.

It is therefore statistically significant at significance level α = 0.05 as p< 0.05

7. CONCLUSION

Through the empirical finding by conducting test, it has been identified that IPO grading and listing day returns are being associated. Even after applying the failure rule, it is concluded that the Failure rate decreases with increasing grades . The noticeable aspect being that for Grade 3 IPOs, The failure rate is as high as 70%, which is higher than it is for the Grade 2 IPOs..Even for Grade 5 issues, which were supposed to be a "strong fundamentals", the Failure rate is 20%. For Grade 1 which was supposed to be a "Poor fundamentals", the Failure rate is 50%. It depicts that higher the IPO grade, the chance of failureis being less. Relationship between listing day returns and retail investor's subscription is considered to be favourable and significant and correlated moderately. Finally there is relationship between IPO grade and listing day returns at moderate level.

8. LIMITATIONS OF THE STUDY

1.   The study result is found out from regression analysis. In regression analysis it is not possible to make a definitive statement about causation and regression analysis . Even data are taken in controlled environment, some other variables are still causing the variation.

2.   Outliers are generally ignored but some time they highly affect the result of regression.

3.   By Using one independent variable and try to find out causality is not sufficient. More than one explanatory variable may give proper idea about the study.

9. SUGGESTION FOR FURTHER RESEARCH

The study covered the relationship between IPO grade and listing day returns and with retail investors' subscription   which comprises 35 IPOs from January, 2010 to December, 2013. So this study suggests that another research can be carried out by taking more sample size . A same kind of research could be carried out according to different sectors' IPOs. . Future researches could be done by taking many years and this can be helpful to confirm or disapprove result of this study. A same kind of research could be carried out for Qualified Institutional Buyers (QIB) also.

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ANNEXURE

ANNEXURE-1

sr. NO.	IPOs	Grade	Retail subscription	Listing day gain
1	Tara jewels Ipo	3	5666815	-0.00021739
2	V Mart retail Ipo	3	1243144	-0.02261905
3	Repco Home Finance Ltd	3	2773936.92	-0.18085714
4	Veto switchgears and cables ltd	4	3147105.26	0.16
5	BhartiInfratelltd.ipo	4	12561850	-0.13090909
6	PC Jeweller IPO	3	26327700	0.103703704
7	Just Dial IPO	5	6176599.85	0.554716981
8	VKS Projects Ltd	1	3955000	0.000209091
9	Speciality Restaurants Ltd	4	2259837.8	0.07
10	TribhovandasBhimjiZaveri Ltd.(TBZ)	3	3966667.12	-0.07333333
11	MT Educare Limited	4	9668228.85	0.003888889
12	National Buildings Construction corp. limited(NBCC)	4	14137200	-0.08443396
13	Olympic Cards Ltd	1	3977458.79	-0.05
14	Multi Commodity Exchange of India Ltd (MCX)	5	52192659.5	0.556831395
15	Bharatiya Global Infomedia Ltd (BGIL)	2	11901120	-0.72256098
16	VMS Industries Ltd	1	8536839.52	-0.5875
17	SRS Limited IPO	3	3920000	-0.41982759
18	Omkar security chemical ltd.	3	28066500	-0.52857143
19	Brooks Laboratories Ltd	2	8232000	-0.42
20	Indo Thai Securities	3	4690000	-0.68918919
21	Flexituff International Ltd	3	3543750	0.073548387
22	Taksheel Solution Ltd	2	11896500	-0.62766667
23	Onelife Capital Advisors Ltd (OCAL)	1	2931250	0.326363636
24	M and B Switchgears Ltd	2	4112500	0.707258065
25	L&T Finance Holdings	5	708973041	-0.03942308
26	C Mahendra Exports Ltd	2	25305000	0.007727273
27	RDB Rasayans Ltd,	2	6237000	-0.66455696
28	PrakashConstrowell Ltd	2	7560001.8	0.663043478
29	PG Electroplast Ltd	3	3297630	0.960238095
30	TD Power Systems Ltd	4	1179336.08	0.0734375
31	Timbor Home Ltd	1	18365130	0.147619048
32	Shilpi Cable Technologies Ltd.	1	17270351.3	-0.31014493
33	MOIL Limited (Manganese Ore India Limited)	5	378704928	0.444
34	Coal India Limited	5	459610257	0.997346939
35	A2Z Maintenance & Engineering Services Ltd	4	2463752.94	-0.17775

Sources:www.chittorgath.com, wwwnseindia.com

Name of IPO	Issue price	Same closing	Listing date	Retail Individual Investors (in Times)	Shares Offered / Reserved
					ANNEXURE- 2
Just Dial IPO	530	612	5-Jun-13	3.53	1,749,745
V Mart retail Ipo	210	205.25	20-Feb-13	0.79	1,573,600
Repco Home Finance Ltd	175	160.85	1-Apr-13	0.51	5,439,092
veto switchgears and cables ltd	50	58	13-Dec-12	2.06	1,527,721
BhartiInfratelltd.ipo	220	191.2	28-Dec-12	0.19	66,115,000
PC Jeweller IPO	135	149	27-Dec-12	1.68	15,671,250
Tara jewels Ipo	230	229.95	6-Dec-12	2.05	2,764,300
VKS Projects Ltd	55	55.6	18-Jul-12	1.13	3,500,000
Speciality Restaurants Ltd	150	160.5	30-May-12	0.55	4,108,796
TribhovandasBhimjiZaveri Ltd.(TBZ)	120	111.2	9-May-12	0.68	5,833,334
MT Educare Limited	90	90.35	12-Apr-12	2.17	4,455,405
National Buildings Construction Corporation Limited (NBCC)	106	97.05	12-Apr-12	3.4	4,158,000
Olympic Cards Ltd	30	28.5	28-Mar-12	1.3637	2,916,667
Multi Commodity Exchange of India Ltd (MCX)	1032	1297.05	9-Mar-12	24.14	2,162,082
Bharatiya Global Infomedia Ltd (BGIL)	82	30.95	28-Jul-11	5.06	2,352,000
SRS Limited IPO	58	33.65	16-Sep-11	0.32	12250000
VMS Industries Ltd	40	28.5	14-Jun-11	3.41	2,503,472
OmkarSpeciality Chemicals Ltd	98	46.2	10-Feb-11	9.9	2,835,000
Brooks Laboratories Ltd	100	58	5-Sep-11	3.36	2,450,000
Indo Thai Securities	74	23	2-Nov-11	3.35	1,400,000
Flexituff International Ltd	155	166.4	19-Oct-11	1.5	2,362,500
Taksheel Solution Ltd	150	55.85	19-Oct-11	6.18	1,925,000
Onelife Capital Advisors Ltd (OCAL)	110	145.9	17-Oct-11	2.5	1,172,500
M and B Switchgears Ltd	186	317.55	20-Oct-11	2.35	1,750,000
L&T Finance Holdings	52	49.95	12-Aug-11	9.61	73,774,510
C Mahendra Exports Ltd	110	110.85	20-Jan-11	4.82	5,250,000
RDB Rasayans Ltd,	79	26.5	7-Oct-11	3.96	1,575,000
PrakashConstrowell Ltd	138	229.5	4-Oct-11	4.68	1,615,385
PG Electroplast Ltd	210	411.65	26-Sep-11	1.64	2,010,750
TD Power Systems Ltd	256	274.8	8-Sep-11	0.38	3,103,516
Timbor Home Ltd	63	91.2	22-Jun-11	14.22	1,291,500
Shilpi Cable Technologies Limited	69	47.6	8-Apr-11	5.74	3,008,772
MOIL Limited (Manganese Ore India Limited)	375	466.5	15-Dec-10	32.86	11,524,800
Coal India Limited	245	342.35	04-Nov-10	2.31	198,965,479
A2Z Maintenance & Engineering Services Ltd	400	328.9	23-Dec-10	0.33	7,465,918

Sources:www.chittorgath.com, www.nseindia.com

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