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   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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IPOs GRADE AND POST ISSUE PERFORMANCE: AN EMPIRICAL STUDY

DR. ISHWARA. P
ASSOCIATE PROFESSOR
DEPARTMENT OF COMMERCE
MANGALORE UNIVERSITY
MANGALAGANGOTHRI

DR. CIRAPPA. I. B
ASST. PROFESSOR
DEPARTMENT OF COMMERCE,
DAVANAGERE UNIVERSITY
SHIVAGANGOTHRI, THOLUHUNSE

ABSTRACT

The Indian Stock Market which is performing well and has doubled its low in March 2009. The BSE SENSEX was 8325, now it is hovering around 16500-18500 is more than doubled in last two years. Indian economy is growing at robust pace and performance of the economy is very good in last two years. If we look at the performance of IPOs, 74 per cent of total 222 listed from 1-4 2007 to 31-3-2010 are trading below their issue price. In this direction an attempt has been made to evaluate the post issue performance of Initial Public Offers (IPOs) listed during the year 2010 and also to identify is there any benefits of IPOs grading to the retail investor. The study result reveals that 93 per cent and above issues in 2010 are trading below their issue price and some of them performed really badly. The government entities are no exception to them. As far as IPOs grading is concerned equities are graded on a scale of one to five. The higher the rating, the better is the issue. The study result shows that Issues with Grade 4 yielded high losses compared to other low grades. On the listing day, only issues with Grade 1 and Grade 3 proved to be beneficial to the investors marginally. Grade 2 and Grade 4 issues resulted in losses.

KEYWORDS
IPO, Stock Market.

INTRODUCTION

The primary market for equity in India gained momentum after the liberalization initiative taken by the government in the early 1990s. During the last twenty years, the Indian IPO market has undergone many changes that are widely seen to have improved its transparency and efficiency. In particular, the initial years of liberalization, after 1990-91, witnessed a boom in the Indian IPO market. With fewer regulations during this period, many entrepreneurs used the primary market as the main vehicle to raise capital as well as reduce their own holdings. The favorable developments lead to rapid growth in the quantum of financial investment. Thus, the primary capital market in India has been witnessing tremendous growth in the number of new issues hitting the market, surpassing the normal growth that is expected as a result of growth economy.

In the 21st Century, the revival of the primary market, which started in 2003-04, gathered momentum in 2004-05 and further invigorated in 2005-06, 2006-2007. Strong macro-economic fundamentals, sustained growth of the manufacturing sector, active institutional support led by FIIs and mutual funds, positive investment climate, sound business outlook, encouraging corporate results and buoyant secondary market induced large number of companies to raise resource from the primary market. Apart from several mega issues, large number of small and medium sized companies' mobilized resources through public and rights issues. The private sector continued to dominate the primary market activities during these years. There was overwhelming response to most of the public issues reflecting risk appetite of the investors in general and sustained investment activities in particular. Regulatory reforms such as introduction of proportionate allotment and margin requirement for the Qualified Institutional Buyers (QIBs) and special allocation to mutual funds within the QIBs category also contributed to brisk activities in the primary market. During this period the SEBI introduced various regulatory measures, in order to protect the interest of stakeholders. Some of the regulatory reforms introduced in the Indian capital market in the recent past are listed out below.

REGULATORY REFORMS IN THE INDIAN IPOs MARKET

Booking Building: This process helps discover the price of an IPO. The company sets a floor price (the lowest price in the band) and a ceiling price (or cap). "The actual price is determined depending on how many bids came at what price".

Allotment of Shares: In cases of book-built issues, the basis of allotment is finalized by lead managers or investment bankers within two weeks from the date of closure. In a situation where a company is divesting more than 25 per cent under a proportionate allotment system, three classes of investors can bid for the shares. At least 50 per cent shares are reserved for Qualified Institutional buyers (QIBs). These include mutual funds and foreign institutional investors. The bidding limit for retail category was raised to Rs 2 lakh (in the Securities and Exchange Board of India's latest order). At least 35 per cent is reserved for this category. The balance bids are offered to HNIs (High Net-worth Individuals) or non-institutional investors (NIIs) and corporate. At least 15 per cent is reserved for this category. If the promoters are diluting less than 25 per cent stake in an IPO, QIBs get 60 per cent reservation, retail 30 percent and NIIs 10 per cent.

Subscription: Retail investors and HNIs are allotted shares on a proportional basis. For example, the Coal India IPO was subscribed two times in the retail category (If Mr X has applied for 200 shares, he will qualify for 100 shares, 200/2). Similarly, an HNI will get eight shares as the category was subscribed 24 times. Sometimes, if the subscription is huge or the price is too high, the allotments are made by lottery. Say, you apply for five shares and the category is subscribed 10 times. In this case, you are entitled to half a share. Since it's not possible, the company may allot shares to one out of every two investors.

IPOs Grading: Grading of equity instruments in its initial public offerings (IPOs) is unique to Indian capital markets. The capital market regulator, SEBI introduced grading of IPOs initially on a voluntary basis on December 30, 2005, and subsequently made it compulsory with effect from May1, 2007. Equities are graded on a scale of one to five. The higher the rating, the better is the issue.

ASBA: In Applications Supported by Blocked Amount (ASBA), the bid amount is blacked in bank account of the applicant till the allotment. For instance, if Mr X applied for shares worth Rs 2 lakh, this amount gets blocked in his account. On allotment, shares worth Rs 50,000 will be credited to his demat account and the remaining amount Rs 1, 50,000, unblocked by bank account.

IPO Discount at Application Stage: Retail investors to a public issue and employees of company concerned can benefit from the discount clause at application stage itself and not while allotment is being done. This is to enable investors to apply for a higher quantity of shares with the same outlay of funds net of discount. This comes into effect on companies filing their red herring prospectus or prospectus with the Registrar of Companies on or after June 15, 2011.

REVIEW OF PAST STUDIES ON IPOs PRICING AND PERFORMANCE

Performance of IPOs in the long run and short run is a well researched area in the capital markets literature. Reilly and Hatfield (1969) reported under-pricing to the extent of 11% from their study of the IPOs in US during the period 1963-65. Subsequently Ibbotson (1975), Reilly (1977), Aggarwal and Rivoli (1989), Ritter (1991), Loughran and Ritter (1995), Ritter and Welch (2002), Ljungqvist andWilhelm (2003) all document under-pricing in the U.S. market. Jog and Riding (1987) report the same for the Canadian market; Ljungqvist (1997) for the German market; Gong and Sekhar (2001) for the Australian market also report under pricing.

Wong and Chiang (1986) for the Singapore market; Chen et al (2004) for the Chinese market and Yong and Isa (2003) provide evidence on under-pricing of IPOs in the Asian markets. It is clear that most studies agree that IPOs leave some money on the table where the money left on the table is the difference between the listing day's close price and the offer price multiplied by the number of shares outstanding. Under-pricing of IPOs is explained by various researchers in different ways and the same may be classified as under:

***Information Asymmetry Hypothesis**: According* to Rock (1986) investment community is characterized with two kinds of investors informed and uninformed investors. When a new issue comes to the market by virtue of their knowledge informed investors keep away from poor quality issues or will be investing only if the aftermarket returns are positive. While uninformed investors subscribe to all issues both good as well as poor quality issues and in all likelihood they will get higher allocation in the later type of issues. This may lead the uninformed investors to keep away from the new issues market. Therefore by under- pricing these investors will be lured to participate in the new offerings. Koh and Walter (1989) working on the Singapore market directly tested this hypothesis and their results corroborate this hypothesis.

***Signaling hypothesis**: Allen* and Faulhaber (1989) propose that a good quality issuer by under-pricing the IPO will subsequently return to the market with a seasoned offering and raise money at better terms. Welch (1992) finds evidence that almost a third of the new issuers returned to the market with a seasoned offering.

Other explanations include Tinic (1989) who suggested that under-pricing discourages investors to file law suits against the issuer and Benveniste and Spindt (1989) propose that investors with more information ill be enticed to reveal more information by under-pricing the IPOs.

In the Indian context Shah (1995) documents a phenomenal 105.6% excess return over the offer price in a study of 2056 new listings over the period January1991 to May 1995. However, this study provides evidence on the short run performance only while Madhusoodanan and Thiripalraju (1997) from a study on IPOs offered on BSE during the period 1992 to 1995shows that under-pricing was higher than the international experiences in the short run and in the long run too they yield higher returns compared to the negative returns recorded from the international markets. Krishnamurti and Kumar (2002) working on a sample of IPOs that hit the market between 1992 and1994 demonstrate that the under-pricing is to the extent of 72.34% (market adjusted returns). Kakati (1999)analyzed the performance of a sample of 500 IPOs that came to the market during January 1993 to March 1996and documents that the short run under-pricing is to the tune of 36.6% and in the long-run the overpricing is 40.8%.

The short-run performance of IPOs has been extensively researched and clearly indicates that on average investors outperform which leads to some loss of value to the issuer of stock. In very few studies on average investors under-perform i.e. stocks were over-priced. IPO short-run performance (under-pricing) has been one of the persistent empirical phenomena for many decades. ***Kenourgios et. al***. (2007) analyzed 169 IPOs listed on the Athens Stock Exchange over the period 1997-2002. The average raw return of the first day was 52.7%, while the average adjusted return was 54.28%. The average raw return of the 5th and the 21st day were 44.78% and 41.84% respectively, while the average excess return was 45.32% and 43.83%. The results suggest that the new issues were on average under-priced since it had significant returns for those who had participated in the offering and sold the new shares at the closing of the 1st, 5th and 21st day, respectively. Another study on the listed securities at Shanghai and Shenzhen stock exchange by ***Liu & Lie*** (2000) investigated 781 securities using 09-years data and found that on average market adjusted short run performance (return) was 139.4%. Their analyses revealed that the first day initial return was much higher in 1991, 1992 & 1993. Market adjusted short run performance (return) for 1st, 5th, 10th and 20^{th} trading days of Shenzhen stock exchange were higher than those of Shanghai stock exchange. Under-pricing of initial public offerings in Bangladesh was analyzed by ***Hasan and Quayes*** (2008) using a sample of 90 IPOs issued in mid nineties during stock market bloom. They identified that increased ownership stake and foreign participation were the factors which negatively affect the magnitude of under pricing. They analyzed the comparison of mean percentage under-pricing on first day between 'premium' and 'par' issues. Findings showed that premium issues are less under-priced than IPOs issued at par. U.S. IPO market has been researched extensively over the last decades. The last updated by ***Loughran et al*** (2006) in 15,333 IPOs that were listed in the period 1960-2005 revealed 1st day returns of 18.1%. Similar to this finding Ritter and Welch (2002) reported initial returns of 18.8% in the U.S. from 1980-2001. ***Choi and Nam*** (1998) reported that Australian Public IPOs are more under-priced than private sector IPOs. They found that, in general, over their sample of 30 countries, PIPOs were more under-priced than private-sector IPOs. ***Peter (2007)*** in his research paper investigated initial return on IPOs of a developing country Sri Lanka and found that in emerging market under-pricing exist in high level as compared to developed countries. Results showed that privatized IPOs had higher average return as compared to non-privatized, privatized IPOs' excess return is 98%. The holding period return was found positive for the first two years while the out-performance finished after three years of initial listing. Initial excess return was almost similar to that of middle income countries like Malaysia, Mexico, Poland and Thailand -priced by 63.92% with 30 IPOs (13.3%) to be overpriced. The initial under-pricing was 67.14% for industrial firms, 54.55% for finance firms and 56.19% for other firms. In terms of sub-sectors the highest return was obtained in Information Technology group while the lowest return was observed in Telecommunication Group. Results suggest that the IPO market on Greece was 'good' only for large offerings. Investigation of factors influencing the initial performance show that market condition, demand multiple, cold-hot issue periods, and offer price independence are significant determinants of under-pricing. Banerjee et al (2009) in their article empirically analyzed the cross-country differences in IPO under-pricing among 18 countries between 2000 and 2006. They had studied the impact of cross country differences in information asymmetry, home bias, enforcement mechanism, and litigation risk on IPO under-pricing. They found that on average investors out-perform in short-run by considering the impact of cross-country differences in information asymmetry, home bias, enforcement mechanism, and litigation risk on IPO under-pricing variables.

STATEMENT OF THE RESEARCH PROBLEM

The Indian Stock Market which is performing well and has doubled its low in March 2009. The BSE SENSEX was 8325, now it is hovering around 16500-18500 is more than doubled in last two years. Indian economy is growing at robust pace and performance of the economy is very good in last two years. If we look at the performance of IPOs, 74 per cent of total 222 listed from 1-4 2007 to 31-3-2010 are trading below their issue price. Almost 27 per cent of total issues lost more than 70 per cent of their issue price and 16 per cent lost their value 80 per cent and above. In this direction an attempt has been made to analyze the performance of the IPOs listed during the year 2010 with the following objectives.

OBJECTIVES OF THE STUDY

The primary objective of this paper is to measure the performance of IPOs listed during the year 2010. In addition to there are the following specific objectives:

1. To know the recent regulatory changes in the Indian capital market.
2. To evaluate the post issue performance of IPOs.
3. To evaluate IPOs grading and its benefits to investors.
4. To make some suggestions to the potential investors.

RESULTS AND DISCUSSIONS

TABLE 1: IPOs ACTIVITY IN INDIA DURING 2000-01 TO 2010-11

Year	No. of Issues	Amount (Rs. Crore)
2000-01	119	6,518
2001-02	19	6,423
2002-03	14	5,732
2003-04	34	22,131
2004-05	34	25,526
2005-06	102	23,676
2006-07	85	24,993
2007-08	91	53,219
2008-09	22	3,534
2009-10	47	49,411

Source: Handbook of Statistics on the Indian Securities Market 2010

Table -1 presents a snapshot of the IPO activity from the beginning of the new millennium. It can be noted there are a total of 567 issues till March 2010 and the number represents IPOs issued following the Book building route as well as Fixed Price Offer route though a majority of them might had been through the book building method.

TABLE-II: IPOs PERFORMANCE DURING THE YEAR 2010

S. No	Company	List Date	List Price	Current Price	Issue Price	Change	Rating Agency	Grade
1	Aqua Logistics Ltd	23-Feb -10	219.4	15.05	220	-93.16	Brick Work	3
2	Bajaj Corp Ltd	18-Aug-10	730	115.4	660	-82.52	CRISIL	4
3	DB Realty Ltd	24-Feb-10	430	85	468	-81.84	CRISIL	2
4	Gyscoal Alloys Ltd	27-Oct-10	76.6	14.82	71	-79.13	CARE	2
5	Aster Silicates Ltd	28-Jul-10	127.7	25	118	-78.81	Brick	2
6	Tirupati Inks Ltd.	1-Oct-10	53.95	9.3	43	-77	N.A	2
7	Sea TV Network Ltd.	14-Oct-10	120	23	100	72.22	ICRS Ltd	1
8	Cantabil Retail India Ltd	12-Oct-10	133.8	37.5	135	-72.22	ICRA Ltd	2
9	Commercial Engineers & Body Builders Co Ltd	18-Oct-10	122.8	35.55	127	-72.01	CRISIL	2
10	Emmbi Polyams Ltd	24-Feb-10	45.5	12.88	45	-71.38	CARE	2
11	Tarapur Transformers Ltd	18-May-10	75	22.5	75	-70	CRISIL	1
12	SKS Microfinance Ltd	16-Aug-10	1036	297.85	985	-69.76	CARE	4
13	Birla Sholka Edutech Ltd.	29-Jan-10	49	16.25	50	-67.5	N.A	N.A
14	Midfield Industries Ltd.	4-Aug-10	159.4	46.3	133	-65.19	Brick Work India Ltd.	2
15	Syncom Healthcare Ltd	15-Feb-10	88	28.85	75	-61.53	Credit Analysis	2
16	Microsec Financial Services Ltd.	5-Oct-10	135.1	47.5	118	-59.75	CRISIL	2
17	Texmo Pipes and Products Ltd.	10-Mar-10	101.5	39.4	90	-56.22	CARE	2
18	Goenka Diamond & Jewels Ltd.	16-Apr-10	130	60	135	-55.56	ICRA	2
19	BS Transcomm Ltd	27-Oct-10	251	113.5	248	-54.23	ICRA	2
20	Intrasoft Technologies Ltd.	12-Apr-10	140	68.2	145	-52.97	NA	NA
21	Ravi Kumar Distilleries Ltd.	27-Dec-10	64	30.35	64	-52.58	NA	NA
22	Nitesh Estates Ltd.	13-May-10	50	26.25	54	-51.39	CRISIL	2
23	Orient Green Power Company Ltd	8-Oct-10	45.7	23.3	47	-50.43	CRISIL	4
24	Hathway Cable & Datacom Ltd	25-Feb-10	246	119.75	240	-50.1	CRISIL	3
25	Vascon Engineers Ltd	15-Feb-10	170	86.15	165	-47.79	CRISIL	3
26	Man Infraconstruction Ltd	11-Mar-10	335	132.5	252	-47.42	CRISIL	3
27	Jaypee Infratech Ltd	21-May-10	93	57.9	102	-43.24	ICRA	3
28	A2Z Maintenance & Engineering Services Ltd.	23-Dec-10	390	238.2	400	-40.45	NA	NA
29	Ramky Infrastructure Ltd.	8-Oct-10	450	268.85	450	-40.26	CRISIL	3
30	Indosolar Ltd	29-Sep-10	29.75	17.6	29	-39.31	CRISIL	3
31	Technofab Engineering Ltd.	16-Jul-10	265	154.6	240	-35.58	FITCH	3
32	DQ Entertainment (International) Ltd.	29-Mar-10	135	55.9	80	-30.13	FITCH	3
33	JSW Energy ltd.	4-Jan-10	102	70.85	100	-29.15	NA	NA
34	Shipping Corporation of India Ltd.	15-Dec-10	136..9	105.35	140	-24.75	N.A	N.A
35	Pradip Overseas Ltd.	5-Apr-10	120	85	110	-22.73	ICRA	2
36	IL & FS Transportation Networks Ltd.	30-Mar-10	287	199.5	258	-22.67	CARE & FITCH	4
37	Prestige Estates Projects Ltd	27-Oct-10	190	142.5	183	-22.13	ICRA	3
38	Claris Lifesciences Ltd.	20-Dec-10	224.4	179.2	228	-21.4	FITCH	3
39	Electrosteel Steels Ltd	8-Oct-10	12.35	8.96	11	-18.55	CARE	3
40	SJVN Ltd.	20-May-10	28	21.35	26	-17.88	CARE	4
41	Eros International Media Ltd.	6-Oct-10	213.35	145.6	175	-16.8	CARE	4
42	Punjab & Sind Bank	30-Dec-10	146.1	100.65	120	-16.13		
43	Ashoka Buildcon Ltd	14-Oct-10	333.55	272.95	324	-15.76	CRISIL	4
44	Tecpro Systems Ltd.	12-Oct-10	399.4	301.25	355	-15.14	CRISIL	4
45	NMDC Ltd.	29-Mar-10	295.7	265.95	300	-11.35	N.A	N.A
46	NTPC Ltd.	19-Feb-10	204	180.25	201	-10.32	N.A	N.A
47	Shree Ganesh Jewellery House Ltd.	9-Apr-10	258.85	236.65	260	-8.98	CARE	3
48	Oberoi Realty Ltd.	20-Oct-10	280	240.3	260	-7.58	CRISIL	4
49	MBL Infrastructures Ltd.	11-Jan-10	190	170	180	-5.56	NA	NA
50	VA tech Wabag Ltd	13-Oct-10	1655	1250	1310	-4.58	ICRA Ltd	4
51	Hindustan Media Ventures Ltd	21-Jul-10	170	158.9	166	-4.28	CRISIL	4
52	Engineers India Ltd.	12-Aug-10	315	281.55	290	-2.91	N.A	N.A
53	R P Infra Projects Ltd.	6-Dec-10	75	74.45	75	-0.73	FITCH	2
54	Infinite Computer Solutions (India) Ltd	3-Feb-10	178.35	164.2	165	-0.48	CRISIL	2
55	MOIL Ltd.	15-Dec-10	551	373.85	375	-0.31	CARE	5
56	Career Point Infosystems Ltd.	6-Oct-10	461	322.95	310	4.18	CARE	3
57	Standard Chartered PLC	11-Jun-10	105	111.95	104	7.64	N.A	N.A
58	Arss Infrastructure Projects Ltd.	3-Mar-10	640	488.8	450	8.62	CARE	2
59	Bedmutha Industries Ltd.	14-Oct-10	114.4	110.8	102	8.63	ICRA	2
60	D B Corp Ltd.	6-Jan-10	250	238	212	12.26	NA	NA
61	Persistent Systems Ltd	6-Apr-10	400	389.7	310	25.71	CRISIL	4
62	Gujarat Pipavav Port Ltd.	9-Sep-10	56.25	60	46	30.43	CRISIL	4
63	Prakash Steelage Ltd	25-Aug-10	118.55	145	110	31.82	CARE	2
64	Godrej Properties Ltd.	5-Jan-10	510	704.25	490	43.72		
65	United Bank of India	18-Mar-10	77	101.85	66	54.32	CARE & ICRA	4
66	Coal India Ltd.	4-Nov-10	287.75	386.3	245	57.67	CRISIL	5
67	Talwalkars Better Value Fitness Ltd.	10-May-10	138	220.95	128	72.62	CARE	3
68	Mandhana Industries Ltd.	19-May-10	132.7	229.3	130	76.38	CRISIL	3
69	Gallantt Ispat Ltd.	11-Oct-10	48.9	91.05	50	82.1	NA	NA
70	Rural Electrification Corporation Ltd.	8-Mar-10	230	223.95	105	113.29	CARE	NA
71	Thangamayil Jewellery Ltd.	19-Feb-10	70	179.4	75	139.2	Brick Work	3
72	Gravita India Ltd.	16-Nov-10	218.75	356.45	125	185.16	Brick Work	3
73	Jubilant Foodworks Ltd.	8-Feb-10	161.6	740.05	145	410.38	FITCH	3

Source: Data complied

From the above table it is clear that, 93 per cent and above issues in 2010 is trading below their issue price and some of them performed really badly. The government entities are no exception to them. If we look at why the performance of IPOs is so bad, there are few notable points which comes to the forefront.

1. The offer prices of these IPOs are very aggressive and there is very little or no room is left for the short term appreciation of the share price. Some of the big companies have not done well on the stock market like MPSEZ, NTPC, NMDC and NHPC.
2. The second most important point is the lead manager and under writer. If a company hired good lead manager, under writer, analyst and paid media, the issue will be oversubscribed.
3. Institution and conventional wisdom expect that high grade issues either provide high profits or low losses. The study results prove the other way round. Issues with Grade 4 yielded high losses compared to other low grades. On the listing day, only issues with Grade 1 and Grade 3 proved to be beneficial to the investors marginally. Grade 2 and Grade 4 issues resulted in losses. Shocking result is that Grade 4 issues lost maximum offsetting gains from other grades. On day five, Grade 2, 3 and 4 issues recorded profits, while Grade 1 issues recorded small losses. What is once again surprising and shocking is that Grade 4 issues on many subsequent days also continue to lose money. Grade 3 issues are relatively better placed. Grade 4 issues appear to be a big drag on remaining grades.
4. Large issues, generally, get higher grades and small issues have high probability of getting low grades. Further, companies with better grades were able to save on cost of raising funds. It also observed that low grade companies spend more money to raise resources and high grade companies spend less. This could be due to size factor also.
5. There is no consistency of returns within inter-grades and inter-grading agencies. No grading agency comes out clearly as a winner. Rather, it appears there is a competition to lose out.
6. In recent times, in the aftermath of sub-prime crisis, rating agencies globally came under heavy flack from all governments, regulators, international regulatory associations, central banks, investors and others. One that has received much attention lately is the impact of the dynamics of competition on ratings and rating quality. The theoretical argument is that competition among providers of rating can lead to a general deterioration of the quality of ratings known as "rating inflation".

SUGGESTIONS

Some of the IPOs are from established corporate but many are from new entities. The small investors, however, should subject all offerings to some simple checks before picking their choice. As compare to rights issues or subsequent public issues or secondary market purchases, a share offered in an IPO is the most opaque investment instrument. This is natural as the company undertaking the IPO is a private one and, as such has had no requirement to share with the public all information about itself. Further, as an unlisted company, there is no price discovery for its shares as yet. Yet IPOs have always been viewed by small investors as a quick way to make a profit. But the risk-reward ratio inherent in an IPO is, today, higher and the small investor must do all his homework well before investing. The credit rating agencies rate IPOs on a scale of 1 to 5 (5 being the best) based on many financial and operational parameters. However, in addition to the IPOs grading, the retail investor suggested to verify the following:

Track the history: Companies sometimes change names to reflect the change in the nature of their business. But frequent name changes reflecting totally different business activities may indicate that the company has not, over the years, developed any core competence in any particular field.

Review prompter's record: Check the performance of the promoter's other ventures, his experience in the business, and so on.

Look at the composition of the shares on offer: Sometimes an IPO includes sale of shares held by promoters. This is quite common when the Government divests its holding in the PSUs. In the case of private sector IPOs the reason why the promoter is partly exiting should by examined if the quantum is disproportionately high.

Check the end use of the IPO proceeds: The end use of the funds raised in the IPO will determine how visible and time bound the flow of benefits will be. The value accretion from IPO funds deployed in specific ongoing projects or to repay high cost debt is likely to be more ascertainable. A positive feature would be if the projects included in the fund use list have been appraised by a bank. Whereas when the listed end users are very general in nature with no clear timeframe, the visibility of the earnings from the IPO will be somewhat lower.

Ascertain the reputation and experience of other participants involve in the IPO such as Book Running Lead Manager, Anchor Investor, if any, and so on.

Fortunately, for the small investors, the above study is not very difficult and the information can be called from the prospectus and documents related to the IPO. This additional due diligence would help reach a more informed decision when confronted with a wide choice of *IPO*s.

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