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    FINDINGS
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A STUDY ON IPO'S AFTERMARKET PRICE PERFORMANCE OF INDIAN CAPITAL MARKET

K. S. DEEPARANI
ASST. PROFESSOR
DEPARTMENT OF MBA
SRI VENKATESWARA COLLEGE OF ENGINEERING & TECHNOLOGY (AUTONOMOUS)
CHITTOOR

DR. V. GAJAPATHI
PROFESSOR
DEPARTMENT OF MBA
VEL TECH DR. RR & SR TECHNICAL UNIVERSITY
AVADI

ABSTRACT

A study on Indian Initial Public Offering is an attempt to examine the price performance of IPOs in Indian Capital Market over a four years period. The study, takes a sample of 10 Indian Initial Public offering listed on National Stock Exchange (NSE) which follows book building process. It analyzes the short-run post issue performance of selected IPO firms in Indian capital market, for an interval of 6 months as short run analysis of underpricing. Offer price of the issue is determined on the basis of market feedback. Therefore, the present study is an attempt to investigate into the pricing phenomenon and the Short-run performance of IPOs in Indian capital market during the period beginning from 2010 to 2013. After IPO issue most of the stock are underpriced which goes to negative returns during the 6months periods, it has given high standard deviations on 3rd month in the study period The test results found that there is no signifance for stock returns except one stock i.e., Indo Thai Securities (0.38) at 5% and there is no single got significant market returns.

KEYWORDS

IPO, Short run analysis, Offer price and Market feedback.

1. INTRODUCTION

An Initial Public Offering (IPO) is a critical moment for a company. A firm going public relies on the capital raised in its IPO to grow and thrive. The stakes also are high for other parties. Investors can reap huge profits or sustain big losses. For the firm's owners and managers, as well as the venture capitalists with a stake in the firm and the investment bankers who underwrite the sale, careers and fortunes can be made. A company selling common shares is never required to repay the capital to its public investors. Those investors must endure the unpredictable nature of the open market to price and trade their shares. After the IPO, when shares trade freely in the open market, money passes between public investors. For early private investors who choose to sell shares as part of the IPO process, the IPO represents an opportunity enhance their investment. After the IPO, once shares trade in the open market, investors holding large blocks of shares can either sell those shares piecemeal in the open market, or sell a large block of shares directly to the public, at a fixed price, through the secondary market. This type of offering is not dilutive, since no new shares are being created.

1.1. PROCESS OF IPO

When a company wants to raise money it plans on offering its stock to the public. This is typically takes place through either an IPO or an FPO (follow-on public offers). The book building process helps determine the value of the security. Once a company determines it wants to have an IPO, it will then contact a book runner or a lead manager. The book runner will determine the price range it is willing to sell the stock. The book runner will then send out the draft prospectus to potential investors. Generally, the issue stays open for five days. At the end of the five days, the book runner determines the demand of the stock for its given price range. Once the cost of the stock has been determined, then the issuing company can decide how to divide its stock at the determined price to its bidders.

When a new company is floated, its shares are issued to the public in primary market as an Initial Public Offer (IPO), New issues market does not have a physical structure or form. The Public issue involves sale of securities to members of the public. The issuing company makes an offer for sale to the pubic directly of a fixed number of shares at a specific price. The offer is provided with legal document known as Prospectus. Thus this a kind of invitation by a company to the public to subscribe to the securities offered through a prospectus. Public financial institutions will provide facility of underwriting for the public issues. This is one of the famous methods for floating securities in the new issue market, but it involves an elaborate process and consequently it is an expensive method.

In the book-building framework, the theory of partial adjustment suggests that investment banks only partially adjust IPO offer prices upward when they receive positive information about the value of the issue. They purposely leave money on the table to reward investors who truthfully reveal their information about the issue and threaten access to future deals for those that do not. Some studies suggest that investment banks underprice IPOs to protect their reputation. When new issues are priced lower than they should be, investment bankers reduce their legal liability by lowering the chance of price declines. There is also evidence that greater underpricing leads to more aftermarket trading volume, which increases the revenue of investment bankers when they subsequently become the market-makers for these IPO firms. Investment bankers also benefit from underpricing because it allows them to curry favor with their clients in exchange for their loyalty and continued business. These explanations do not make it clear why issuing firms approve underpricing as it only benefits the investment banks.

Studies have found that IPOs in the United States are underpriced an average of 15 percent. Thus, at the end of the first day of trading, the stock price of a company is typically 15 percent higher than the initial price set by the underwriter. Conventional wisdom has held that the gap is inevitable given the risks in taking public a young company that often has little or no track record. Research has found that IPOs are underpriced an average of 15 percent. A common explanation for this gap between the initial and close-of-the-first-day prices is that firms going public are risky ventures and investment banks are prudent to set initial prices low.

2. REVIEW OF LITERATURE

Anthony Saunders (1990) The study examines reasons for IPO underpricing and evaluate the degree to which underpricing is due to Glass-steagall restrictions, and to know the implications of those underpricing and of associated empirical evidence, for commercial & investment bank regulation. The results revels that new issue did appear to be less underpriced before Glass-steagall, evidence suggests that those investment banks that excessively underprice today lose future business form prospective issuing firms and investment bank's own IPOs are also underpriced on average. Rohini Inder Chopra (2009), The researcher intends to examine the price performance of the Indian IPOs listed on NSE, using a sample of IPOs that tapped the NSE market during 1999-2008 by taking in consideration of their price. The short run as well as long run analysis of their price performance have been done. The study reveals that underpricing is present in the Indian capital market, it also found that underpricing is more prevalent in the short run than in the long run. John D. Knopf (1999) Numerous empirical studies of the well documented IPO underpricing anomaly have employed a variety of different proxies for risk, none of which seem able to explain a significant portion of initial trading day returns. We find evidence that several of the risk proxies used in these studies are outperformed by the Parkinson Extreme Value method in explaining returns to IPOs; hence, these studies seem to have underestimated the explanatory power of uncertainty to predict IPO returns. Nonetheless, we do find evidence in support of the asymmetric information theories of IPO underpricing. A.K.Mishra(2010) The study adds new evidence to the existing literature on IPOs in a significant manner. Firstly, in consistence with the 'hot issue market' theory it highlights that on the main broad of the Indian Exchange, IPO underpricing increased in 2007. The empirical findings indicate a significant mean positive underpricing (14.45%); nonetheless, 60% of IPOs in the sample are initially overpriced. Secondly, there is no evidence has found in difference in underpricing between fixed price and book built offers. Chiraz Labid et.al(2010) Many studies argue investors' sentiment significantly affects IPO pricing and performance. Accordingly, first day returns are expected to be driven by over-optimistic investors rather than stock fundamentals. In the IPO market Asset overvaluation and subsequently underperformance can be explained by investors' opinions divergence. In the study Excess early market return volatility is compared as the difference between the standard deviation of the first 25 daily returns after the issuance, excluding the intial return, and the return volatility of the corresponding MSCI market index for the same period. Md. Gazi salah Uddin, et.al (2009) The researcher seeks evidence supporting the existence of share market efficiency based on the monthly data and it investigates the reason of market inefficiency, relationship between share price and interest rate, and changes of share price and changes of interest rate were determined through both time series and panel regressions. The results reveals that if the interest rate is considerably controlled, then it is a great benefit to stock exchange through demand pull way of more investors in share market, and supply push way of more extensional investment of companies.

3. OBJECTIVES OF THE STUDY

- To measure the extent of risk of IPO s after market performance.
- To analyze the performance of listed companies with returns in different intervals.

HYPOTHESIS

- Relationship between Stock returns and Market Returns.
- Relationship between Stock risk and Market risk.

4. METHODOLOGY

The research can concentrates only on secondary data taking intervals of share price after IPO issues on listing day issue price and closing price of issue, first day, after 1 week, 1 month, 3 months, 6 months from 2010 to 2013 from listed IPOs of NS. The study investigates if IPO once got issued, how it is going to perform after the market, initially how it performs, later on how it is going to get fluctuate it stocks prices with market returns through this it analyze the extent of risk involved on it. The present study is to confine to t test. The first part of the research is survey to explain average returns of consolidated intervals by calculating both stock and market. Data is analyzed with SPSS software.

5. RESULTS AND ANALYSIS

The collected data analyzed to study the above cited objectives and the results drawn are as follows.

TABLE- 1: ONE-SAMPLE STATISTICS ON STOCK RETURNS

Selected Stocks	N	Mean	Std. Deviation	Std. Error Mean
Punjab & Sind bank	5	-25.4923	42.60556	19.05379
Jaypee Infratech limited	5	-12.9711	28.60150	12.79098
A2Z maintenance & engineering services ltd	5	-21.7638	19.11366	8.54789
Indo Thai securities limited	5	-61.5915	45.32128	20.26829
SRS limited	5	-30.2422	25.86380	11.56664
L&T finance holdings limited	5	-5.3649	5.62530	2.51571
Paramount Print packaging limited	5	-18.3122	16.11345	7.20615
Mt Educare limited	5	12.5999	13.53777	6.05428
National buildings construction corporation limited	5	-4.6972	22.51786	10.07029
V-mart retail limited	5	-11.0562	10.95773	4.90045

Table-1 exhibits the stock returns and risk of the ten selected companies with five different intervals namely Day one, first week, one month, three months and six month. Out of ten companies, MT Educare Ltd have high margin of returns (12.5999), National Buildings Constructions Corporation returns (-4.6972) than the remaining stocks and where as risk is very low with L&T Finance Holdings Limited has less risk (5.62530) compared to remaining companies.

TABLE-2: ONE-SAMPLE TEST ON STOCK RETURNS

	Test Value = 0					
Selected Stocks	T	df	(2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Punjab & Sind bank	-1.338	4	.252	-25.49234	-78.3941	27.4095
Jaypee Infratech limited	-1.014	4	.368	-12.97110	-48.4846	22.5424
A2Z maintenance & engineering services ltd	-2.546	4	.064	-21.76376	-45.4965	1.9690
Indo Thai securities limited	-3.039	4	.038	-61.59145	-117.8652	-5.3177
SRS limited	-2.615	4	.059	-30.24220	-62.3563	1.8719
L&T finance holdings limited	-2.133	4	.100	-5.36489	-12.3496	1.6198
Paramount Printpackaging limited	-2.541	4	.064	-18.31220	-38.3197	1.6953
MT Educare limited	2.081	4	.106	12.59988	-4.2095	29.4092
National buildings construction corporation limited	-.466	4	.665	-4.69723	-32.6569	23.2624
V-Mart Retail Limited	-2.256	4	.087	-11.05617	-24.6620	2.5497

Table – 2 evidence that there is no significance for the selected stock returns, Except the Indo Thai Securities (0.38) is significant at 5%.

TABLE- 3: ONE-SAMPLE STATISTICS ON MARKET RETURNS

Selected stocks	N	Mean	Std. Deviation	Std. Error Mean
Punjab & Sind bank	5	1.2347E5	2.63465E5	1.17825E5
A2z maintenance & engineering services ltd	5	1.2157E5	2.59422E5	1.16017E5
Jaypee Infratech limited	5	1.0724E5	2.27806E5	1.01878E5
Indo Thai securities limited	5	9.9490E4	2.09933E5	93885.11301
SRS limited	5	9.8850E4	2.10096E5	93957.59094
L&T finance holdings limited	5	1.1361E5	2.42888E5	1.08623E5
Paramount Printpackaging limited	5	1.1518E5	2.45870E5	1.09956E5
MT Educare limited	5	1.0778E5	2.29203E5	1.02503E5
National buildings construction corporation limited	5	1.1877E5	2.27620E5	1.01795E5
V-Mart Retail Limited	5	1.2365E5	2.63824E5	1.17986E5

Table-3 exhibits the market returns and risk of the ten selected companies with five different intervals namely Day one, first week, one month, three months and six month. Out of ten companies, INDO THAI SECURITIES have high margin of returns (9.9490E4), SRS LTD also have gained good returns (9.8850E4) than the remaining stocks when it turns to risk, it is going to be very moderate with all the companies.

TABLE-4: ONE-SAMPLE TEST ON MARKET RETURNS

	Test Value = 0					
Selected Stocks	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Punjab & Sind bank	1.048	4	.354	1.23474E5	-203661.2789	450609.4589
A2z maintenance & engineering services ltd	1.048	4	.354	1.21567E5	-200548.5120	443681.9520
Jaypee Infratech limited	1.053	4	.352	1.07238E5	-175620.6461	390096.9661
Indo Thai securities limited	1.060	4	.349	99490.46000	-161176.4025	360157.3225
SRS limited	1.052	4	.352	98849.91000	-162018.1835	359718.0035
L&T finance holdings limited	1.046	4	.355	1.13609E5	-187976.9236	415194.0836
Paramount Printpackaging limited	1.048	4	.354	1.15185E5	-190102.9382	420472.5182
MT Educare limited	1.051	4	.352	1.07775E5	-176817.3351	392367.9951
National buildings construction corporation limited	1.167	4	.308	1.18773E5	-163854.4089	401400.2689
V-Mart Retail Limited	1.048	4	.354	1.23648E5	-203932.5542	451228.4142

Table 4 reveals the results of t-test that there is no significance for any selected market returns.

5.1. PRICE PERFORMANCE OF IPOS AFTER MARKET PERFORMANCE

Short run analysis of Price Performance of the IPOs is essential to study the extent of risk after IPO issue. For this purpose, the buy and hold period of the first trading day i.e. 1st listing day, 1st Week, 1st Month, 3rd Month, 6th Month after listing day has been considered.

TABLE: 5: RETURNS OVER SHORT RUN

TIME FRAME	N	R_Returns	MR_Returns	SD
ON THE LISTING DAY	5	5.694	540557	382227.4941
ON THE 1st WEEK	5	-26.806	5419.22	3850.921915
ON THE 1st MONTH	5	-22.927	5272.6	3744.503052
ON THE 3rd MONTH	5	-22.648	10132.23	7180.583096
ON THE 6th MONTH	5	-21.968	5423.35	3850.421284

The overall return obtained from the IPOs is shown in the table. The returns, thus it calculated Raw Return taken on listing day, one week, one month, three months, and 6 months. So as to analyze the price performance of IPO, in the short run, these returns are in turn compared with that of Market return, which are calculated by taking into consideration the CNX Nifty index.

TABLE 6: MAX AND MIN OF R_RETURN AND MR_RETURN

TIME FRAME	N	MAX R_Return	MAX MR_Return	MIN R_Returns	MIN MR_Return
ON THE LISTING DAY	5	34.65	595590	-27.35	47689
ON THE 1st WEEK	5	12.93	6201.5	-100	4745.6
ON THE 1st MONTH	5	12.93	59911.7	-84.79	4828.9
ON THE 3rd MONTH	5	17.31	53780	-82.7	4551.6
ON THE 6th MONTH	5	31.74	5807.4	-85.47	5121

These returns showed the extent of underpricing of the IPOs which generate returns to the investors on the first trading of price discovery. The returns fall down dramatically after one week from the listing day and it get fluctuated by raising again after 6 months with max returns (31.74) but the market return get continuously falling from the listing day up to 6 months gradually (5807.4).

6. POLICY IMPLICATIONS

As the short run analysis clearly shows the performance of the IPOs after market, all the selected Ipos during the study period got underpriced and it is found that risk is comparatively very high with stock to market returns. So investors should aware of the concept of “Green Show Option “, it allows companies to intervene in the market to stabilize share prices during the 30 day stabilization period immediately after listing. So the investor should go through the offer document of the company to know more about it. The green shoe option is exercised by a company making a public issue. The issuer company uses green shoe option during IPO to ensure that the shares prices on the stock exchanges does not fall below the issue price after issue of shares.

7. CONCLUSIONS

From the foregoing analysis, it can be found that the short run analysis of price performance reveals that IPO after market, i.e. from the listing day to the six months after listing, the selected companies under NSE, has huge fluctuations where, the difference between the extent of risk is very less with L&T Finance Holdings LTD and Punjab & Sind Bank has given high risk compared with returns it is MT Educare LTD (12.59). There is no significance for the selected stock returns during the study except Indo Thai Securities has (0.38) are significant at 5%. While market returns the Indo Thai securities has high margin of returns (9.9490E4), SRS Ltd also have gained good returns (9,8850E4) and There is no significance for market returns during the study. The study reveals that the IPOs aftermarket performs huge fluctuations and stock returns get underpriced by the time IPOs got listed and after 6months there may be various factors which affect IPO underpricing.

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