Performance Analysis of Top Ten IPOs in the Recent Past

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Abstract:

IPOs are frequently issued by littler, more youthful organizations looking for the funding to grow, yet can likewise be finished by a huge exclusive organization looking to end up traded on an open market. The objective of an IPO may differ from company to company. It may be for expansion of existing activities of the company or setting up of new projects or just to get its existing equity shares listed by diluting the stake of existing equity shareholders through offer for sale or any other object as may be specified by the Company in its offer document. In this paper we analyse post-issue returns of top ten IPOs that have completed at least one year. We found that under-pricing is still present and most of the IPOs provide negative return in the long-run.

Key Words: IPO, Under-pricing, 1st day return, Listing Price

1. Introduction:

Initial Public Offering, the primary offer of stock by a privately-owned business to general society is known as IPO. IPOs are frequently issued by littler, more youthful organizations looking for the funding to grow, yet can likewise be finished by a huge exclusive organization looking to end up traded on an open market. Additionally, most IPOs are of organizations experiencing a short-lived development period, which are liable to extra instability with respect to their future qualities. The methods to issue IPOs are like Fixed Price Method and Book Building Process. The objective of an IPO may differ from company to company. It may be for expansion of existing activities of the company or setting up of new projects or just to get its existing equity shares listed by diluting the stake of existing equity shareholders through offer for sale or any other object as may be specified by the Company in its offer document. In an initial public offering (IPO), a private company becomes a public concern by issuing equity shares to the outside investors for the first time. IPO is a process through which Companies access the capital from market by selling a variety of securities, such as common stock, bonds and preferred stock. Certainly, companies have other ways of getting finance, such as retention of earnings; bank loan, overdraft etc., but the equity shares are the major source of funding. IPOs often come from smaller, younger companies seeking capital to expand their business. IPOs are quite risky to invest in. SEBI the Capital Market regulator, which was established with the objective of investor protection and regulation of capital markets, has issued many guidelines and introduced structural reforms to bring efficiency in the market and it, has brought out various norms the companies have to adhere to before approaching the primary capital market. Important reforms implemented during this period were related to introduction of fit and proper criterion for public issuers, Clause 49 relating to rules of listing, book building norms, and submission of annual and quarterly financial statements, among others. Marisetty and Subrahmanyam (2010) have termed the period after 2000 as the reformed regulated era of the Indian capital market. Consequent upon these reforms and policy changes, the Indian IPO market has increased in complexity and size. It has emerged as one of the most important markets for global investors among emerging market economies. In this backdrop, it is worthwhile to revisit post-issue performance of Indian firms to analyse changes in firms' behaviour in the reformed regulated era. Various reforms were intended to increase the entry and survival of good firms over firms with poorer credentials. An analysis of post-issue operating performance of firms will indicate whether regulation has resulted in any distinctive shift in their performance. Majority of studies focusing on this area, particularly those relating to advanced economies, have generally concluded that IPO firms underperform post-issue vis-à-vis their pre-issue performance.

The reminder of the paper is organised as follows: Section-2 provides the details of literature review, Section-3 describes the data and methodology, in Section-4 we have represented the descriptive statistics, Section-5 is about data analysis and interpretation and Section-6 we have presented the conclusion.

2. Literature Review:

Barber and Lyon (1996) have criticised event studies relating to IPOs and have argued that in the case of IPO firms, performance variables such as ROA give biased results as asset size of firms changes significantly post issuance. According to them, literature has generally ignored this fact while selecting control firms. They suggested that instead of size, firms should be matched by the relevant variables.

Mikkelson et al. (1997) also concluded that the operating performance of IPO firms declines post-issuance. They attributed the decline in post-issue performance of IPO firms to their relatively younger age and smaller size, which disables them from sustaining their competitive advantage, as they lack adequate managerial skills and economies of scale.

Timothy R. Burch and Larry Fauver (2003) find that offers by firms from countries that do not impose foreign ownership restrictions and capital controls are priced, on average, at 3.9% below the preoffer price (U.S. dollar-converted) of the domestic shares.

Kim et al. (2004) tested the entrenchment hypothesis by using a cubic function and concluded that there was a curvy-linear relationship between ownership share of owner-manager and firm performance.

Singh and Sehgal (2008) investigated the possible determinants of under-pricing and the long run performance of 438 Indian initial public offerings (IPOs) during June 1992-- March 2001. The researchers found that under-pricing in Indian IPO's has been found to be 99.20%. The level of under-pricing is extremely high compared with the international evidence. It was also found that in the long run, the Indian initial public offerings don't tend to underperform.

Sahoo and Prabina (2010) in the research paper titled, "After Market Pricing Performance of Initial Public Offerings: Indian IPO Market 2002-2006" studies performance of 92 IPOs. The researchers have determined that the average level of under pricing of initial public offerings in India is to the extent of 46.55%. The level of under-pricing was obtained by comparing the listing day performance with the market index.

Tanted N, Mustafa S (2019) identify the difference in returns between IPO offered price, Listing day opening price, closing price. The study concluded that the price offered by the IPO, the open-day listing price and the closing-day listing price did not vary statistically significantly. The mean value for the open price listing day was higher than the price provided by the IPO. For the listing day close price, the mean value was high compared to the listing day open price. For the listing day closing price, when the price offered by the IPO was high, the mean value was high

3. Research Methodology

This section discusses research methodology, the choice of companies and extraction of data, development of hypotheses and simultaneous set of equations. It presents the descriptive statistics of the variables.

3.1 Objective of the Study

- To analyse the performance of top ten IPOs during the period 1st January' 2021 to 31st December' 2022.

- To find out under priced and over priced IPOs.

3.2 Scope of the Study

The scope of the study is limited to the IPOs listed in NSE.

3.3 Data and Sample Selection

The authors have selected top ten IPOs on the basis of issue size; during the period starting from 1st January' 2021 to 31st December' 2022. We have considered only those IPOs which have completed one year by 31st December' 2022. The data has been collected from NSE website (https://www.nseindia.com) and the website of yahoo finance (https://finance.yahoo.com/quote/%5ENSEI/history).

Table – 1: Details of Sample Companies

Sl No.	IPO Name	Listing Date	Issue Size (In Crores)	Industry
1	Aptus Value Housing Finance India Limited	09/06/2021	INR 2790	Mortgage Finance
2	Sona BLW Precision Forgings Limited	24/06/2021	INR 5550	Auto Parts
3	Zomato Limited	23/07/2021	INR 9375	Internet Retail
4	Nuvoco Vistas Corporation Limited	23/08/2021	INR 5089	Building Materials
5	ChemplastSanmar Limited	24/08/2021	INR 3930	Chemicals

6	FSN E-Commerce Ventures Limited	10/11/2021	INR 5375	Internet Retail
7	Aditya Birla Sun Life AMC Limited	10/11/2021	INR 2768	Asset Management
8	PB Fintech Limited	15/11/2021	INR 6273	Insurance Broker
9	One97 Communications Limited	18/11/2021	INR 18916	Technology
10	Star Health and Allied Insurance Company Limited	10/12/2021	INR 7318	Financial Services

The sample includes companies from different industries such as financial services, internet retail, chemicals and auto parts, etc. One97 Communications Limited (Paytm) is the largest company by issue size. Aditya Birla Sun Life is the smallest company in our sample.

3.4 Calculation of Return

$R_{id} = (P_1 - P_0)/P_0$

Where:

R_{id} is the return on "i^{th}" stock on "d^{th}" day

P_1 is the closing price of "i^{th}" stock on "d^{th}" day

P_0 is the listing price

4. Descriptive Statistics

Table – 2: Descriptive Analysis

	Mean	SD	Min	Max
1st Day	0.007981	0.345599	-0.67308	0.655921
1st Week	0.029078	0.362432	-0.68547	0.756579
1st Month	0.00033	0.385626	-0.67949	0.674342
1st Quarter	-0.03994	0.549365	-0.74645	0.97543
Half Yearly	-0.06594	0.65474	-0.79899	1.449313
Yearly	-0.29201	0.488758	-0.83267	0.909966
CR*	-0.33171	0.363179	-0.86236	0.441581

*CR: Current Return (Calculated as on 31/12/2022)

Table -2 shows the descriptive statistics of the variables under consideration in this study. The mean first day return is 0.79 percent. Average 1st day, 1st week and 1st month return are positive but 1st quarter onwards it has become negative. This shows IPOs do well in the short-run but as the time progress their return starts declining. In all cases the minimum return is negative but the maximum return is positive.

5. Data Analysis and Interpretation

Table – 3: Performance Analysisof IPOs

IPO Name	Return							
	Listing Price	Day 1	1st Week	1st Month	1st Quarter	6 Months	1 Year	CR
Star Health	900	0.007611	-0.08961	-0.11689	-0.29344	-0.22144	-0.33122	-0.37078
One 97 Paytm	2150	-0.27249	-0.16337	-0.38558	-0.60467	-0.72758	-0.74893	-0.75302
PB Fintech	980	0.227449	0.262806	0.148622	-0.22046	-0.31577	-0.60393	-0.54255
FSN E-Co Nykaa	1125	-0.67308	-0.68547	-0.67949	-0.74645	-0.79899	-0.83267	-0.86236
Aptus Value	353	-0.01728	0.046601	-0.04065	-0.01303	-0.03187	-0.01062	-0.13938
ChemplastSanma	541	-0.00998	0.064972	0.113124	0.01793	0.138078	-0.22209	-0.15037
Nuvoco Vistas	570	-0.06789	-0.04772	-0.04386	-0.09649	-0.39439	-0.41228	-0.35956

Zomato	76	0.655921	0.756579	0.674342	0.8125	0.495395	-0.29408	-0.21974
Sona BLW	291	0.246907	0.185395	0.454467	0.97543	1.449313	0.909966	0.441581
ABSL AMC	712	-0.01735	-0.0394	-0.12079	-0.23069	-0.25218	-0.37423	-0.36096

Table – 3 shows the performance analysis of the sample IPOs. It is observed from 1st day return that only four IPOs (Zomato, Sona BLW, PB Fintech and Star Health) provide positive return that means these IPOs are underpriced whereas other IPOs are overpriced which provide a negative return on the first day. Two IPOs that is ChemplastSanma and Aptus Value became profitable in the first week. In the first month four IPOs like PB Fintech, ChemplastSanma and Zomato have positive return and others have negative return.Chemplast, Zomato and Sona BLW have positive return and others have negative return in case of 1st and 6 month return. Only IPO Sona BLW have positive return after one year. If we look at the current return all the IPOs have given negative return except Sona BLW. It is the same in case of the returns calculated on completion of fist year of the IPOs. From this we can infer that in the long-run most of the IPOs give negative return.

6. Conclusion

This study shows that under-pricing is still present in the Indian market as half of the sample. Average return is positive up to first month then after it shows negative return. IPOs have given positive return on the first day. Big IPOs like Paytm &Nykaa are over-priced. Soan BLW is the only IPO that has given positive return in all stages. This can help investors to gain positive return in the short-run.

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