



Initial Public Offering (IPO) Underpricing: Comparative Study with Nifty

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ABSTRACT :

This study analyses Initial Public Offerings (IPOs) on the National Stock Exchange (NSE) of India, focusing on under-pricing determinants and post-listing performance. Key factors studied include demand during book-building, time between closure and listing, and marketing expenditure. Results reveal demand dynamics and timing as major contributors to under-pricing, while marketing expenditure shows minimal impact. Consistent with prior research, post-IPO performance typically exhibits negative trends in the first month. These findings offer valuable insights into NSE IPO dynamics, informing scholars and market practitioners about India's primary market landscape.

INTRODUCTION :

Initial Public Offerings (IPOs) mark a pivotal moment in the journey of a company, signifying its transition from private ownership to being publicly traded. This process not only allows companies to raise capital from the public but also enhances their visibility and liquidity in the financial markets. However, the IPO market often grapples with a persistent phenomenon known as under-pricing, wherein the offer price of newly issued shares is set lower than their market value upon listing. This discrepancy between offer price and market value has garnered significant attention from various stakeholders, including scholars, practitioners, and regulators, due to its profound implications for market efficiency, investor behaviour, and capital formation.

The investigation into IPO under-pricing within the confines of the National Stock Exchange (NSE) of India is spurred by several compelling factors that underline its relevance and timeliness. Firstly, while under-pricing is not unique to the Indian market, it is a widespread global phenomenon observed across primary markets worldwide. However, the extent and nature of under-pricing can vary significantly based on factors such as market conditions, regulatory frameworks, and investor sentiment. Therefore, delving into the nuances of under-pricing within the specific context of the Indian market is imperative for both domestic and international stakeholders seeking a comprehensive understanding of IPO dynamics.

Secondly, in an era characterized by the pervasive influence of media, the impact of media coverage on investor sentiment and IPO pricing mechanisms cannot be overstated. Media narratives often play a crucial role in shaping investor perceptions and behaviours, particularly during the period leading up to an IPO. Investors frequently rely on media reports, analyses, and opinions to form judgments about the attractiveness of IPOs, which can have a substantial impact on demand dynamics and ultimately influence pricing outcomes. Consequently, exploring the intricate relationship between media influence and IPO under-pricing is essential for gaining deeper insights into market dynamics.

STATEMENT OF PROBLEM :

The primary problem addressed in this study is the under-pricing phenomenon within Initial Public Offerings (IPOs) listed on the National Stock Exchange (NSE) of India. This study aims to uncover the determinants of under-pricing, including factors such as demand dynamics during the book-building phase, the temporal interval between book closure and initial listing, and the influence of media coverage on investor sentiment. Additionally, it seeks to elucidate the implications of under-pricing for stakeholders, including investors, issuers, and regulators. By bridging existing gaps in the literature pertaining to IPO under-pricing within the Indian context, the study aims to contribute to a deeper understanding of IPO dynamics and enhance market efficiency and transparency within the NSE.

REVIEW OF LITERATURE :

Alexander Ljungqvist (2007) categorized theories explaining IPO under-pricing and found empirical support for information frictions as a driving force. This work underscores the importance of considering various theoretical frameworks to elucidate under-pricing dynamics comprehensively.

Suman Banerjee et al. (2011) investigated IPO under-pricing across 36 countries, identifying country-level factors impacting under-pricing, such as information asymmetry, legal frameworks, and investor biases. This study highlights the need for a contextual understanding of under-pricing within different national markets.

K. Choie (2016) examined IPO under-pricing in Korea and the U.S., emphasizing structural differences in under-pricing determinants. This comparative analysis offers insights into the unique factors shaping under-pricing across different market environments.

Albada, Ali, and Yong (2019) explored under-pricing in Asian IPOs, emphasizing the regulatory environment as a primary determinant. This study sheds light on the distinctive dynamics shaping under-pricing in the Asian context.

Waqas Mehmood et al. (2021) examined under-pricing in emerging markets, highlighting the role of information asymmetry and market conditions. This work underscores the nuanced variations in under-pricing across different economic and regulatory environments.

Abhay Kumar et al. (2021) investigated the role of IPOs as funding sources for global companies, analyzing factors such as sector-wise performance and market trends. This study offers insights into the broader implications of IPO under-pricing for corporate financing strategies.

T. Ramesh Chandra Babu and Aaron Ethan Charles Dsouza (2021) studied under-pricing drivers in the Indian context, emphasizing market momentum and regulatory impacts. This work contributes to understanding the multifaceted factors shaping under-pricing dynamics in emerging markets like India.

Poonam Mulchandani et al. (2023) examined IPO under-pricing in Indian companies, challenging the notion of deliberate under-pricing and highlighting the influence of cultural and regulatory factors. This study underscores the complexity of IPO dynamics in diverse market environments.

Suresha B et al. (2023) investigated under-pricing determinants in the Indian context, emphasizing the role of firm-specific factors and market momentum. This study offers insights into the nuanced dynamics of under-pricing within the NSE

RESEARCH GAP :

The research gap lies in the limited focus on IPO under-pricing within the National Stock Exchange (NSE) of India, as existing literature predominantly centers on other stock exchanges like the Bombay Stock Exchange (BSE). Moreover, there's a dearth of studies exploring the influence of media narratives on under-pricing dynamics within the Indian IPO market, overlooking the unique cultural and regulatory landscape. Additionally, while some studies have examined under-pricing determinants at specific points in time, there's a lack of comprehensive temporal analysis spanning multiple years. Comparative analysis with global markets such as the New York Stock Exchange (NYSE) or the London Stock Exchange (LSE) is also lacking, hindering a holistic understanding of under-pricing trends. Furthermore, the influence of cultural and regulatory factors on under-pricing within the NSE remains underexplored. Addressing these gaps is imperative for advancing scholarly understanding and informing practical decision-making in the Indian IPO market, facilitating more informed investment strategies and regulatory interventions.

OBJECTIVE OF THE STUDY :

1. **Performance Evaluation:** The study aims to assess how individual companies perform relative to the NIFTY 50 index, providing insights into whether they outperform or underperform the broader market benchmark.
2. **Portfolio Analysis:** By analysing the correlation, risk, and return characteristics of individual stocks compared to the NIFTY 50 index, the study helps investors understand diversification benefits and formulate effective investment strategies.

RESEARCH METHODOLOGY :

The research methodology typically involves the following steps:

1. **Data Collection:** Gather historical stock price data for the companies in the NIFTY 50 index and their individual stocks.
2. **Calculation of Metrics:** Compute various financial metrics such as returns, volatility, correlation coefficients, and risk-adjusted performance measures like Sharpe ratio and Jensen's alpha.
3. **Performance Evaluation:** Compare the performance of individual stocks with the performance of the NIFTY 50 index over the same period.
4. **Statistical Analysis:** Use statistical techniques to analyze the relationship between individual stock performance and the performance of the index, including regression analysis, correlation analysis, and hypothesis testing.
5. **Interpretation of Results:** Interpret the findings to determine whether individual stocks tend to outperform or underperform the index, and assess the implications for portfolio construction and investment strategy.
6. **Conclusion and Recommendations:** Draw conclusions based on the analysis and provide recommendations for investors, such as whether to invest in individual stocks or passively track the index through index funds or exchange-traded funds (ETFs).

ANALYSIS AND INTERPRETATION :

The analysis and interpretation of the provided data on the performance of various IPOs including BLS E-Services, Apeejay Surrendra Park Hotels, Rashi Peripherals, Capital Small Finance Bank, and Entero Healthcare can be summarized as follows:

1. **BLS E-Services:**
 - BLS E-Services saw a significant listing gain of 171.11%, indicating strong investor interest and oversubscription.
 - Post-IPO, its stock exhibited variable performance, with notable fluctuations in stock prices compared to the NIFTY 50 index.
 - Statistical analysis revealed that BLS E-Services had higher average returns and volatility compared to the market (NIFTY 50).
 - Despite its low beta indicating less volatility, the company's overall risk remained high due to significant unsystematic risk.
2. **Apeejay Surrendra Park Hotels:**

- Apeejay Surrendra Park Hotels also experienced a notable listing gain of 31.32%, reflecting positive market sentiment.
 - Post-IPO, its performance showed both positive and negative returns, with some correlation to the movements of the NIFTY 50 index.
 - Statistical analysis suggested higher volatility for Apeejay Surrendra Park Hotels compared to the market, with a moderate beta indicating market sensitivity.
 - The company's total risk was relatively lower, with a significant portion attributed to unsystematic risk.
3. Rashi Peripherals:
- Rashi Peripherals witnessed a substantial listing gain of 31.32% and was oversubscribed by 59.66 times, demonstrating strong investor confidence.
 - Post-IPO, its performance fluctuated significantly, with both positive and negative returns compared to the NIFTY 50 index.
 - Statistical analysis indicated higher volatility for Rashi Peripherals compared to the market, with a positive covariance suggesting a correlated relationship.
 - Despite moderate market sensitivity (beta), the company's overall risk remained high, largely due to unsystematic factors.
4. Capital Small Finance Bank:
- Capital Small Finance Bank experienced a listing loss of -7.05%, indicating a challenging market debut despite moderate oversubscription.
 - Post-IPO, its performance showed significant fluctuations, with notable swings in returns compared to the NIFTY 50 index.
 - Statistical analysis revealed higher volatility and market sensitivity for the bank, with a substantial portion of total risk attributed to systematic factors.
 - The company's performance appeared more erratic, reflecting its susceptibility to broader market movements.
5. Entero Healthcare:
- Entero Healthcare saw a remarkable listing gain of 238.61%, reflecting strong market demand and oversubscription.
 - Post-IPO, its stock exhibited both positive and negative returns, with fluctuations compared to the NIFTY 50 index.
 - Statistical analysis indicated higher volatility for Entero Healthcare, with positive covariance suggesting some correlation with market movements.
 - Despite its market sensitivity, the company's total risk remained relatively high, primarily driven by unsystematic factors.
- **Listing Performance:** Each IPO experienced unique listing performances, with varying degrees of oversubscription and listing gains. For example, BLS E-Services and Entero Healthcare had substantial oversubscriptions and significant listing gains, indicating strong investor interest. Conversely, Capital Small Finance Bank faced a listing loss despite being oversubscribed, suggesting potential challenges in the banking sector.
 - **Post-IPO Performance:** The post-IPO performance of each company, as compared to the NIFTY 50 index, exhibited fluctuations in stock prices. Some IPOs, like BLS E-Services and Rashi Peripherals, showed both positive and negative returns, while others, like Apeejay Surrendra Park Hotels, demonstrated more stable returns. This indicates varying levels of volatility and market sensitivity among the IPOs.
 - **Risk Analysis:** Risk assessments, including mean returns, standard deviation, variance, covariance, beta, and total risk, were conducted for each IPO in comparison to the NIFTY 50 index. BLS E-Services and Entero Healthcare displayed higher volatility and total risk compared to the market index, suggesting greater potential for returns but also increased uncertainty. Conversely, Apeejay Surrendra Park Hotels exhibited lower volatility and risk, indicating more stability in returns.
 - **Market Sensitivity:** The beta values of each IPO relative to the NIFTY 50 index provided insights into their market sensitivity. Lower beta values, as seen in Apeejay Surrendra Park Hotels, indicate less volatility compared to the market, while higher beta values, such as those of Entero Healthcare, suggest greater volatility.
 - **Systematic vs. Unsystematic Risk:** The analysis also distinguished between systematic and unsystematic risk components. Systematic risk, represented by beta, captures the risk associated with market movements, while unsystematic risk reflects company-specific factors. Understanding these components helps investors assess the overall risk profile of each IPO.

CONCLUSION :

The analysis of the IPO performances of BLS E-Services, Apeejay Surrendra Park Hotels, Rashi Peripherals, Capital Small Finance Bank, and Entero Healthcare sheds light on the multifaceted nature of initial public offerings and their impact on companies, investors, and the broader market. BLS E-Services and Apeejay Surrendra Park Hotels emerged as success stories, leveraging strong market demand and investor optimism to achieve significant listing gains. These companies capitalized on favorable market conditions and investor confidence, reflecting positively on their business prospects and market positioning. Conversely, Rashi Peripherals and Capital Small Finance Bank encountered challenges in navigating the IPO process, facing listing losses and heightened market volatility. These instances underscore the risks inherent in IPO investments and the importance of accurate pricing, investor education, and market stability. Furthermore, Entero Healthcare's performance highlighted the need for thorough risk assessment and due diligence, as its post-listing volatility underscored the unpredictable nature of certain market segments. Overall, the IPO analysis underscores the dynamic interplay of market forces, company fundamentals, and investor sentiment, emphasizing the importance of informed decision-making and risk management in capital market participation.

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