



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

¹Hrishitha H A, ²Dr. Amudha S

Faculty of Management Studies (CMS Business School), Jain Deemed to be University, Bengaluru.

ABSTRACT

This study examines the factors that influence under-pricing and post-listing performance in Initial Public Offerings (IPOs) on the National Stock Exchange (NSE) of India. The period between closure and listing, marketing expenses, and demand during book-building are some of the important elements that were examined. The findings indicate that under-pricing is mostly caused by demand dynamics and timing, with marketing spend having little effect. Post-IPO performance often shows negative tendencies in the first month, which is in line with previous studies. These results provide insightful information regarding the dynamics of NSE IPOs, educating academics and industry professionals about the state of India's key markets.

KEYWORDS: Initial Public Offerings (IPOs), National Stock Exchange (NSE) of India, Under-pricing, Post-listing performance, Demand dynamics, Time between closure and listing, Marketing expenditure, NIFTY 50 index, Performance evaluation, Portfolio analysis.

INTRODUCTION

An important milestone in a company's history is its initial public offering (IPO), which denotes the company's move from private ownership to public trading. Through this method, businesses may increase their visibility and liquidity in the financial markets in addition to raising funds from the general public. On the other hand, under-pricing—a recurring problem in which the offer price of freshly issued shares is set below their market value upon listing—often poses a challenge to the IPO market. Because of the substantial effects this difference between offer price and market value has on investor behaviour, capital creation, and market efficiency, a wide range of stakeholders—including academics, practitioners, and regulators—have expressed great interest in it.

Several compelling facts highlight the significance and urgency of the examination into IPO under-pricing within the constraints of the National Stock Exchange (NSE) of India. First off, under-pricing is a common occurrence seen in primary markets all around the world, not only in the Indian market. However, depending on variables including market conditions, legal frameworks, and investor attitude, under-pricing can take many different forms and have varying effects. For this reason, in order to provide local and foreign stakeholders with a thorough grasp of the dynamics of initial public offerings, it is essential to explore the subtleties of under-pricing within the unique setting of the Indian market.

Secondly, it is impossible to overestimate the significance of media coverage on investor mood and IPO pricing mechanisms in a time when the media is so ubiquitous. Particularly in the run-up to an IPO, media narratives can have a significant impact on investor attitudes and actions. Investor perceptions of the attractiveness of initial public offerings (IPOs) are often shaped by media reports, studies, and views. These perceptions can significantly affect demand dynamics and, ultimately, price results. Consequently, in order to have a deeper understanding of market dynamics, it is imperative to investigate the complex interaction between media impact and IPO under-pricing.

STATEMENT OF PROBLEM

The under-pricing phenomena in initial public offerings (IPOs) registered on the National Stock Exchange (NSE) of India is the main issue this study attempts to solve. The objective of this research is to identify the variables that contribute to under-pricing, such as the dynamics of demand during the book-building stage, the duration between book closure and initial listing, and the impact of media coverage on investor mood. It also aims to clarify the effects of under-pricing on various stakeholders, including as issuers, investors, and regulators. The study intends to contribute to a deeper knowledge of IPO dynamics and improve market efficiency and transparency within the NSE by filling in the gaps in the literature that currently exist regarding IPO under-pricing within the Indian environment.

REVIEW OF LITERATURE

Alexander Ljungqvist (2007) When classifying ideas to explain IPO under-pricing, discovered empirical evidence in favour of information frictions as a motivating factor. This paper emphasizes how crucial it is to take into account a variety of theoretical frameworks in order to fully understand under-pricing processes.

Suman Banerjee et al. (2011) looked at IPO under-pricing in 36 different nations, revealing national-level elements such investor biases, legal frameworks, and information asymmetry that affect under-pricing. This study emphasizes how important it is to comprehend under-pricing in the context of various national marketplaces.

K. Choie (2016) investigated IPO under-pricing in the US and Korea, highlighting fundamental variations in factors that influence under-pricing. This comparative study sheds light on the particular variables influencing under-pricing in various market contexts.

Albada, Ali, and Yong (2019) investigated under-pricing in Asian initial public offerings (IPOs), highlighting the regulatory framework as a key factor. The unique mechanisms influencing under-pricing in the Asian setting are clarified by this study.

Waqas Mehmood et al. (2021) emphasized the importance of market dynamics and information asymmetry. The subtle differences in under-pricing across various legislative and economic contexts are highlighted by this paper.

Abhay Kumar et al. (2021) examined market trends and sector-specific performance to examine the function of initial public offerings (IPOs) as funding sources for multinational corporations. This study sheds light on how business finance strategies may be affected more broadly by IPO under-pricing.

T. Ramesh Chandra Babu and Aaron Ethan Charles Dsouza (2021), focused on market momentum and regulatory consequences. This research advances our knowledge of the complex variables influencing the dynamics of under-pricing in developing economies such as India.

Poonam Mulchandani et al. (2023) cast doubt on the idea of purposeful under-pricing and emphasized the impact of cultural and legal considerations. The intricacy of IPO dynamics in various market settings is shown by this study.

Suresha B et al. (2023) emphasized the importance of market momentum and firm-specific factors. This research provides information on the complex processes of under-pricing in the NSE.

RESEARCH GAP

The present literature mostly focuses on other stock exchanges such as the Bombay Stock Exchange (BSE), leaving a study void on IPO under-pricing inside the National Stock Exchange (NSE) of India. Furthermore, a lack of research has been done on how media narratives affect under-pricing dynamics in the Indian IPO market, ignoring the country's distinct legal and cultural context. Furthermore, although some research has looked at factors that contribute to under-pricing at certain times, a thorough temporal study spanning several years is lacking. The absence of comparative study with international markets like the London Stock Exchange (LSE) and the New York Stock Exchange (NYSE) makes it difficult to comprehend under-pricing patterns comprehensively. Moreover, not enough research has been done on how cultural and regulatory variables contribute to under-pricing in the NSE. In order to promote academic knowledge and guide practical decision-making in the Indian IPO market, close these gaps and enable better-informed investment strategies and regulatory actions.

OBJECTIVE OF THE STUDY

1. Evaluation of Performance: The study's primary goal is to determine if individual firms outperform or underperform the larger market benchmark by comparing their performance to the NIFTY 50 index.
2. Portfolio Analysis: The research assists investors in understanding the advantages of diversification and developing successful investing strategies by analyzing the correlation, risk, and return characteristics of individual companies in comparison to the NIFTY 50 index.

RESEARCH METHODOLOGY

The following steps are usually included in the research methodology:

1. Data collection: Compile historical stock price information for each of the individual stocks and the firms that make up the NIFTY 50 index.
2. Metric Calculation: Determine a number of financial metrics, including correlation coefficients, returns, volatility, and risk-adjusted performance measures like Jensen's alpha and Sharpe ratio.
3. Performance Evaluation: Examine how each stock performed over the same time period in comparison to the NIFTY 50 index.
4. Statistical Analysis: Regression analysis, correlation analysis, and hypothesis testing are some of the statistical methods that may be used to examine the link between the performance of a single stock and the index.

5. Analysis of Results: Evaluate the implications for individual stocks' tendency to outperform or underperform the index by interpreting the data.
6. Conclusion and Recommendations: Based on the study, make conclusions and advise investors on things like whether to buy individual companies or use exchange-traded funds (ETFs) or index funds to passively track the index.

ANALYSIS AND INTERPRETATION

The following may be used to summarize the analysis and interpretation of the data on the success of numerous initial public offerings (IPOs), including BLS E-Services, Apeejay Surrendra Park Hotels, Rashi Peripherals, Capital Small Finance Bank, and Entero Healthcare:

1. **BLS Electronic Services:** The listing gain of 171.11% for BLS E-Services was noteworthy, suggesting considerable investor interest and oversubscription. The stock of the company had inconsistent performance after the IPO, with large price changes as compared to the NIFTY 50 index.
 - BLS E-Services outperformed the market (NIFTY 50) in terms of average returns and volatility, according to statistical study.
 - The company's total risk remained high because of large unsystematic risk, even if its low beta indicated reduced volatility.
2. **Apeejay Surrendra Park Hotels:**
 - Apeejay Surrendra Park Hotels also had a noteworthy 31.32% listing rise, indicating a favorable attitude in the market.
 - After the initial public offering (IPO), its performance fluctuated between positive and negative returns, with some association to changes in the NIFTY 50 index.
 - The company's overall risk was comparatively lower, with a substantial share attributable to unsystematic risk; statistical analysis indicated increased volatility for Apeejay Surrendra Park Hotels relative to the market, with a modest beta showing market sensitivity.
3. **Rashi Peripherals:**
 - After the IPO, Rasi Peripherals' performance varied greatly, with both positive and negative returns in comparison to the NIFTY 50 index. • It saw a huge listing gain of 31.32% and was oversubscribed by 59.66 times, indicating strong investor confidence.
 - Rashi Peripherals had more volatility than the market, according to statistical research, with a positive covariance indicating a connected relationship. The company's total risk remained high despite moderate market sensitivity (beta), mostly because of unsystematic causes.
4. **Capital Small Finance Bank:**
 - Capital Small Finance Bank's performance after the IPO exhibited substantial volatility, with notable swings in returns relative to the NIFTY 50 index. • The bank had a listing loss of -7.05%, indicating a difficult market debut despite moderate oversubscription.
 - The bank was found to have higher volatility and market sensitivity, with a significant amount of overall risk attributable to systematic variables. The company's performance was also found to be more irregular, indicating its vulnerability to larger market fluctuations.
5. **Entero Healthcare:**
 - Following its initial public offering (IPO), Entero Healthcare's stock saw volatility in relation to the NIFTY 50 index, as well as positive and negative returns. The company's listing gain of 238.61% was noteworthy and indicated significant market demand and oversubscription.
 - Despite its market sensitivity, Entero Healthcare's overall risk remained rather high, mostly due to unsystematic variables; statistical analysis suggested increased volatility for the firm, with positive covariance showing some link with market movements.

FINDINGS

- **Listing Performance:** Different levels of oversubscription and listing profits were achieved by each initial public offering (IPO). Strong investor interest can be shown, for instance, in the large oversubscriptions and listing gains of BLS E-Services and Entero Healthcare. On the other hand, despite being oversubscribed, Capital Small Finance Bank had a listing loss, indicating possible difficulties in the banking industry.
- **Post-IPO Performance:** Stock price swings were evident in each company's post-IPO performance when compared to the NIFTY 50 index. While some initial public offerings (IPOs), such as Apeejay Surrendra Park Hotels, exhibited more consistent returns, others, including BLS E-Services and Rashi Peripherals, showed both positive and negative returns. This suggests that the IPOs have different degrees of market sensitivity and volatility.
- **Risk Analysis:** For every IPO, risk evaluations were performed in relation to the NIFTY 50 index, taking into account mean returns, standard deviation, variance, covariance, beta, and total risk. In comparison to the market index, BLS E-Services and Entero Healthcare showed more

volatility and overall risk, indicating a better potential for gains but also a higher degree of uncertainty. On the other hand, Apeejay Surrendra Park Hotels showed less risk and volatility, which suggested higher consistency in returns.

- **Market Sensitivity:** Each IPO's beta value in relation to the NIFTY 50 index revealed information about how sensitive it was to the market. Increased beta values, like those of Entero Healthcare, imply increased volatility, while lower beta values, like those of Apeejay Surrendra Park Hotels, show less volatility relative to the market.
- **Systematic vs. Unsystematic Risk:** The research also made a distinction between risk components that are systematic and unsystematic. Whereas unsystematic risk highlights variables unique to a corporation, systemic risk, symbolized by beta, captures the risk related to market fluctuations. Investors are better able to evaluate the entire risk profile of each IPO when they are aware of these elements.

CONCLUSION

The examination of BLS E-Services, Apeejay Surrendra Park Hotels, Rashi Peripherals, Capital Small Finance Bank, and Entero Healthcare's IPO results provides insight into the complex nature of IPOs and their effects on businesses, financiers, and the general public. Success examples included BLS E-Services and Apeejay Surrendra Park Hotels, who were able to generate large listing gains by taking advantage of high market demand and investor confidence. These businesses benefited from strong investor confidence and market circumstances, which improved their company prospects and placement.

On the other hand, Rashi Peripherals and Capital Small Finance Bank had difficulty navigating the initial public offering (IPO) procedure, as they experienced listing losses and increased market volatility. These incidents highlight the dangers associated with initial public offerings (IPOs) and the significance of fair pricing, investor education, and stable markets. Additionally, Entero Healthcare's performance demonstrated the necessity of careful risk assessment and due diligence, since the company's post-listing volatility emphasized how erratic some market sectors may be. The examination of initial public offerings (IPOs) highlights the intricate relationship between market dynamics, firm fundamentals, and investor mood. It also highlights the significance of risk management and well-informed decision-making while participating in the capital market.

References

1. Hawaldar, I. T. (n.d.). Pricing and performance of IPOs: Evidence from Indian stock market.
2. Lakshay Khandelwal, A. A. (n.d.). IPO Underpricing across Different Sectors in India from 2010- 2020.
3. Manu, K. S. (n.d.). Valuation Analysis of Initial Public Offer (IPO): The Case of India.
4. *MoneyControl*. (n.d.). Retrieved from <https://www.moneycontrol.com/ipo/listed-ipos/>
5. *NSE*. (n.d.). Retrieved from <https://www.nseindia.com/reports-indices-historical-index-data>
6. Sehgal, S. (2013). *Valuation of IPOs in India-An Empirical study*. New Delhi: MacroThink Institute.