International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

PERFORMANCE OF INITIAL PUBLIC OFFERINGS (IPOs) IN INDIAN CAPITAL MARKET

Purnima Sarkar

Asst.Professor II(Finance), Amity Global Business School, Bhubaneswar

ABSTRACT :

India is set to provide a favorable business climate, where banks and Non-Banking Financial Companies will thrive. Huge opportunities for both public and private sector banks and Non-Banking Finance Companies to espouse the initial public offering (IPO) / follow on offer (FPO) / offer for sale (OFS) path. Issuance of initial public offering (IPO) / follow on public offer (FPO) / offer for sale (OFS) by banks and Non-Banking Finance Companies (NBFCs) operating under both public and private sectors in near future will assist them in bolstering their key financials like, Return on Assets and Equity as well as Reported Net Profit after Tax.The menace of non-performing assets (NPA) needs to be curbed by both public and private sector banks as raising of any quantum of capital may not assist them in expanding their operations and achieve business growth unless and until the critical issue of non-performing assets (NPA) is adequately addressed. In this regard, initial public offering (IPO) / follow on public offer (FPO) / offer for sale (OFS) issue may provide financial solace to a great extent as it will assist the banks in infusing capital. Similarly, NBFCs being on the expansion mode also need capital to finance their expansion and business operations. In this regard, initial public offerings (IPOs) may prove to be a messiah.

Keywords : IPO,FPO,OFS, Return on Assets, Return on Equity

INTRODUCTION

The growing requirement for loans by the mentioned business organizations may be met by issuance of initial public offering (IPO) / follow on public offer (FPO) / offer for sale (Offer for Sale). eeing to the optimistic Indian business scenario, the banks and Non-Banking Finance Companies may ponder over enhancing the quantum of loans to Micro Small and Medium Enterprises and Start-ups. In nutshell it can be stated that today India being the most vivacious economies of the world is creating phenomenal business opportunities and banking and NBFCs have a larger role to play in financing the business growth.

The rising toxic loans and fiascos of banks have made them move away from direct lending to customers and instead they are lending to NBFCs who are servicing corporate and retail customers. In view of this, NBFCs have to financially strengthen themselves in order to reach the last mile.

It is heartening to note that recently Non-Banking Finance Companies (NBFCs) there have been an expansion in initial public offer (IPO) financing business as substantial bids for initial public offerings (IPOs) have resulted to an enhanced demand for funds. The IPO market has revived demand for IPO loans from NBFCs.

Objective of the Study

This study focuses on the following objectives

original Public Offers Follow- on Public Offers Offer for trade as a pivotal source of raising long term finance by banks and non-banking fiscal Companies.

Impact of global profitable extremity on the issue of original Public Offers Follow-on Public Offers Offer for trade of banks and non-banking fiscal Companies.

Impact of allocation of original Public Offers Follow- on Public Offers Offer for trade on the crucial fiscal parameters, i.e., Reported Net Profit After duty of both banks; Return on Equity and Return on means of banks and non-banking fiscal Companies considered for the study.

Research Gap

Exploration Gap List of literature review of named exploration papers thesis Exploration Gaps

01) Faulhaber (1989), observed that in some circumstances good enterprises want to “signal” to their investors about their good prospects and therefore underprice their IPOs.

The study missed out the post listing of IPO performance, i.e. overvaluation aspect

02) Omran, (2005); Reber and Fong, (2006); Khurshid, Pande and Singh (2008) suggested that IPOs are underpriced on the listing day. The study missed out the underpricing overpricing miracle after certain period of table, i.e., 1 time, 2 times, 3 times etc. from the date of table.
03) Jotwani and Singh (2011) stated that subscription rate of the IPO plays a pivotal part in short run.
IPO undervaluation/ overvaluation angles wasn't covered in the study.
04) Chopra (2009) conducted analysis of long and short performance of Indian IPOs and concluded that underpricing is being in public stock exchange and is more acute in the short run ages, i.e. from the listing day to six months after the table. He further observed that investors holding their equities for longer period, the long run IPO tends to move to their true value driving out much of underpricing.
At times in the long- run also, the stock tends to be underpriced. In other words, the returns from the stock post listing in the short period is promising.

RESEARCH DESIGN

The exploration objects have been developed from the exploration problem statement after an in-depth study of the sphere area and literature review. The objects of the exploration study are as under
a) To ascertain the trend of IPO investing/ issue in India with special reference to Banking and Non-Banking Finance Companies.
b) To ascertain the impact of the Global Economic Crisis on the original public immolation (IPO) issue, with special reference to Indian banking sector.
c) To comprehend the original public immolation (IPO) performance of Banking and Non-Banking Finance Companies (NBFCs)
In order to ascertain the forenamed objects, original Public Offers (IPOs) Follow- on Public Offers (FPOs) Offer for trade (OFS) issued by both public and private sector banks and Nonbanking Finance Companies (NBFCs) that formed the part of the exploration study have been taken into consideration. Further, the impact of Global Economic Meltdown on original public offer (IPO) of Indian banking sector have been also studied. Since global profitable meltdown spread like a contagion and affected nearly maturity of capital requests across the globe, it creates substantial academic and exploration interests to explore the impact of global profitable extremity on original public offer (IPO) of both public and private sector banks considered for the exploration study.
In order to know the performance of original public offer, it's imperative to concentrate on its post listing performance also, as high return post table of original public offer (IPO) implies subscribers or shareholders stands advantaged. In view of this, an bid have been made to observe the post listing original public offer(IPO) performance of banks and Non-Banking Finance Companies(NBFCs) considered for the exploration study in terms of original Return or Raw Return on stocks and request Acclimated redundant Return(MAER) on stocks and other significant fiscal variables, similar as, Return on means(ROA); Return on Equity(ROE); Reported Net Profit after Tax(PAT) and most importantly Non-Performing means(NPAs).

Hypothesis

The Global Economic Crisis doesn't affect original public offer (IPO) issue of Banking assiduity with reference to Cement & Construction and Engineering sectors of India.
Rationale The explanation for considering the Cement & Construction and Engineering sectors in association with the Banking sector for bearing a relative study of the impact of Global Economic Crisis on their IPO issue are as under thesis.
2) There's no significant difference in the original public offer (IPO) issue (volume wise) of Indian Banking assiduity during pre and post Global Financial Meltdown.
Rationale Global Economic Crisis or Global Meltdown was a great fiscal shock that created temblors across the capital requests of colorful husbandry. In this regard, it generates substantial academic and exploration interests to explore its impact on Indian capital request also, with special reference to original public offer (IPO) issue of Indian Banking sector. With the ideal of catching on the magnitude of impact of the global profitable extremity, the thesis takes into regard the pre and post global profitable extremity IPO script of Indian Banking and Non-Banking Finance Companies.
The forenamed thesis helps in achieving the alternate ideal also, i.e., the rush of global fiscal meltdown on original public offer (IPO) of Indian banking assiduity.
3) There's no significant difference in the Return on means (ROA) of both public and private sector banks taken into consideration for the exploration study due to issue of original public offer (IPO) during the period 2000 – 2015.
Rationale: Since Return on Assets (ROA) exhibits profitability of a company in relation to its total assets, it is of great research interest to ascertain as to how issue of initial public offers (IPOs) by both public and private sector banking companies of India that have been taken into consideration for the research study have exerted an impact on their ROA or not during the period mentioned in the hypothesis. Further, assets, particularly the fixed assets are procured from long term source of finance and capital raised through IPO are utilized for financing the investments in fixed assets, which in turn assist in generation of earnings for the company, in view of this, the analysis holds tremendous significance.

4) There is no significant difference in the Return on Equity (ROE) of both public
and private sector banks taken into consideration for the research study due to issue of initial public offer (IPO) during the period 2000 – 2015.

Rationale: The equity shareholders who really own the company, espouses the maximum risk and get residual amount realized from the sale of assets, if available, at the time of winding up of the company. In view of this, it is imperative to find out that whether money procured by both public and private sector banking companies of India that have been taken into consideration for the research study have exerted an impact on their Return on Equity (ROE) or not during the
period mentioned in the hypothesis.

5) There is no significant difference in the Return on Assets (ROA) of both public
and private sector Non-Banking Finance Companies (NBFCs) taken into consideration for the research study posts initial public offer (IPO) for the period 2012–2016.

Rationale: Since Return on Assets (ROA) shows the profitability of a company in relation to its total assets, it is of great research interest to ascertain the post initial public offer (IPO) issue impact on the Return on Assets (ROA) of Non-Banking Finance Companies (NBFCs) of India operating under both public and private sector that have been considered for the research study during the period 2012-2016.

6) There is no significant difference in the Return on Equity (ROE) of both public
and private sector Non-Banking Finance Companies (NBFCs) taken into consideration for the research study posts initial public offer (IPO) for the period 2012 – 2016.

Rationale: Since the equity shareholders are the risk bearers of the company in true sense, in light of this fact, it becomes imperative to delve deep into the post initial public offer (IPO) issue impact on the Return on Equity (ROE) of Non-Banking Finance Companies (NBFCs) of India operating under both public and private sectors that have been considered for the research study during the period 2012 – 2016.

RESEARCH METHODOLOGY

Methods of Collecting Data

For undertaking the research study in an efficient manner both forms of data, i.e. primary as well as secondary have been collated and analyzed. A questionnaire was circulated through online among various respondents to procure primary data. Responses were received from 257 respondents. Data was collated from Academicians; Business / Financial Analysts; Entrepreneur; Stock Broker; Researcher and others that comprise of investors. For the collation of secondary data various authentic sources have been referred. In view of this, the data / information available online on the websites of SEBI, leading Indian stock exchanges BSE Ltd. and NSE Ltd. various prominent firms actively engaged in the Indian capital market research along with articles, research papers, business newspapers / journals etc. have been referred.

2.3 Period of Reference

Since the research study entails studying the performance of initial public offers (IPOs) of banks and Non-Banking Finance Companies (NBFCs) in new millennium, in view of this, the period considered for the research study is 2000 – 2015 for analyzing the performance of initial public
offer (IPO) of banks and Non-Banking Finance Companies (NBFCs) on various important
facets.

TOOLS OF ANALYSIS

2.4.1 Karl Pearson's Co-efficient of Correlation-

By using the mentioned statistical tools, the correlation between the quantum of IPOs issued (value-wise) by the banks selected for the research study and Reported Net Profit after Tax (PAT) and Non-Performing Assets (NPAs) will be determined, thereby, providing us with key insights pertaining to performance of Initial Public Offerings (IPOs), with reference to the mentioned significance financial variables.

2.4.2 Parabolic trend equation-

The mentioned statistical tool will help in ascertaining the projected values of initial public offers (IPOs) of Indian capital market. Since in the computation of forecasted IPO values, a comprehensive scenario of IPO of Indian capital market has been considered, it will provide a broader view pertaining to the future IPO issue trend of banking and NBFCs also.

2.4.3 F-test

(One Factor Model- This statistical test will explain the performance of initial public offer (IPO) of banks and Non-Banking Finance Companies (NBFCs) of India operating under both public and private sector considered for the research study with reference to their significant financial variables, i.e., Return on Assets (ROA) and Return on Equity (ROE).

2.4.4 Kruskal Wallis Test or H-Test-

The mentioned statistical tool will be of immense assistance in comprehending that during pre and post Global Financial Meltdown the initial public offer (IPO) issue (volume wise) of Indian banking sector have been affected or not with reference to other two crucial sectors of Indian economy- Cement & Construction and Engineering.

2.4.5 Mann Whitney U-Test-

This test will help in finding out the initial public offering (IPO)issue scenario of Indian banking sector pre and post Global Economic Crisis. This statistical tool to a great extent supplements the findings obtained through Kruskal Wallis Test or H-Test, i.e., how IPO of banking sector performed issue wise pre and post Global Economic Crisis.

2.4.6 Initial or Raw Return and Market Adjusted Excess Return (MAER) on stocks-

These two financial tools will help in ascertaining the post initial public offer (IPO) listing performance of both public and private sector banks and Non-Banking Finance Companies (NBFCs) of India taken into account for conducting the research study.

2.4.7 Standard Deviation and Co-efficient of Variation-

This statistical tool will assist in ascertaining as to which year / (s) have been opportune for the initial public offer (IPO) issue in case of both public and private sector banks and Non-Banking Finance Companies (NBFCs) of India considered for the research study.

2.4.8 Focused Group Discussion-

This research tool will assist in ascertaining the banking experts" views on the following crucial topics-
i) Existence of strong correlation between IPO issues (value-wise) and Reported Net Profit after Tax (PAT) of banks operating under both public and private sectors considered for the research study during the period 2000 - 2015.
ii) Impact of IPO issue on both public and private sector banks and Non-Banking Finance Companies (NBFCs) Return on Assets (ROA) and Return on Equity (ROE) taken into account for conducting the research study during the period 2000 – 2015.
iii) Conduciveness of current economic scenario for IPO issue by banks and NBFCs

DATA ANALYSIS

Karl Pearson's Coefficient of Correlation

i) A strong correlation ($r = 0.92$ and $r^2 = 0.85$) can be observed between the value of initial public offer (IPO) issued by the banks of India operating under both public and private sectors, that have been taken into consideration for undertaking the research study and Reported Net Profit after Tax (PAT).
ii) A weak or negative correlation ($r= -0.09$ and $r^2 = 0.0081$) can be observed between the value of initial public offer (IPO) issued by the banks of India operating under both public and private sectors, that have been taken into consideration for undertaking the research study and Nonperforming Assets (NPA) of those banks.

3.1B.2 Parabolic Trend Equation-

By applying parabolic trend equation, it can be observed that initial public offers (IPOs) in Indian capital market have witnessed and may face lot of volatility. In 2003-04, the initial pubic offers (IPO) value wise stood at INR 3,191.10 crore
which rose substantially to INR 41,323.45 crore in 2007-08, then it dipped sharply to INR 2,033.99 crore and the scenario improved to a great extent in 2010-2011 with the initial public offer (IPO) issue registering INR 33,097.77 crore in 2010-11.

From the forecasted values of initial public offers (IPOs), it may be opined that in the years ahead a lot of volatility may be observed in initial public offers (IPOs) issue. As a mammoth initial public offer (IPO) may be observed in 2020, i.e., INR 209,845 crore that may nose dive a little during the period 2021- 2027, that may further go down to INR 62,435 crore by 2030. However, in view of the fact that the Indian economy is growing at an astounding pace, there may be an upsurge in initial public offer (IPO) issues in the future.

3.1B.3 Kruskal-Wallis Test or H-Test-

By applying Kruskal-Wallis Test or H-Test, it can be observed that Global Economic Crisis exerted an impact on the initial public offer (IPO) issue of the Banking sector with reference to other two crucial sectors of the Indian economy, i.e., Cement & Construction and Engineering.

3.1B.4 MANN-WHITNEY U-TEST-

By applying MANN-WHITNEY U-Test, concerned it is observed that there is no significant variation in the volume of initial public offers (IPOs) during pre and Financial Meltdown.

3.1B.5 F-Test (One Factor Model)-

I.

i) Regarding post-initial public offer (IPO) issue performance with respect to the Return on Assets (ROA) of banks of India operating under both public and private sectors, that have been taken into consideration for the research study, it can be observed that there is a significant variation in their Return on Assets (ROA) post initial public offer (IPO) issue.

ii) Regarding post-initial public offer (IPO) issue performance with respect to the Return on Equity (ROE) of banks of India operating under both public and private sectors, that have been taken into consideration for the research study, it can be observed that there is a significant variation in their Return on Equity (ROE) post initial public offer (IPO) issue.

iii) Regarding post-initial public offer (IPO) issue performance with respect to the Return on Assets (ROA) of Non-Banking Finance Companies (NBFCs) operating under both public and private sectors, that have been taken into consideration for the research study, it can be observed that there is a significant variation in their Return on Assets (ROA) post initial public offer (IPO) issue.

iv) Regarding post-initial public offer (IPO) issue performance with respect to Return on Equity (ROE) of Non-Banking Finance Companies (NBFCs) operating under both public and private sectors, that have been taken into consideration for the research study, it can be observed that there is a significant variation in their Return on Equity (ROE) post initial public offer (IPO) issue.

Limitations of the Study

Due to non-availability of information on Initial Public Offers / Follow-on Public Offers / Offer for Sale of Cooperative Banks, Regional Rural Banks and several Non-Banking Finance Companies (NBFCs), they have been kept outside the scope of the research study.

Only those banks have been considered for the research study which came up with Initial Public Offers / Follow-on Public Offers / Offers for Sale during the period 2000-2015. In the case of NBFCs, only those NBFCs have been covered in the research study of which Initial Public Offers / Follow-on Public Offers / Offers for Sale related details were available.

Impact of the Eurozone Crisis on the issue of Initial Public Offers / Follow-on Public Offers/Offer for Sale of banks and NBFCs have not been covered.

Conclusion

From the research study, it can be concluded that banks and Non-Banking Finance Companies have scope for further initial public offering (IPO) issue, as Indian capital market and current economic scenario provide a conducive environment for initial public offering (IPO) issue. Further, looking into the growing demand for credit by industrial, agricultural and other priority as well as non-priority sectors of Indian economy, initial public offerings (IPOs) may play a critical role in meeting the capital requirements of banks and Non-Banking Finance Companies. Moreover, issue of initial public offering (IPO) / follow on public offer (FPO) / offer for sale (OFS) may play a crucial role in recapitalizing the banks that have lost substantial funds due to soaring non-performing assets (NPA).

It is heartening to note that issue of initial public offering (IPO) / follow on public offer (FPO) / offer for sale (OFS) by banking and Non-Banking Finance Companies have received overwhelming response as depicted by the Mean value, i.e., 2.18 on the query pertaining to the rating of quantum of initial public offering (IPO) issue by banks and Non-Banking Financial Companies during the period 2000-2015.

Similarly based on the primary data analysis, the issue of initial public offering (IPO) value wise by banks and Non-Banking Finance Companies displays a strong correlation with their Reported Net Profit after Tax (PAT). The Mean value is 1.26.

The majority of respondents showing consensus on the fact that Global Economic Crisis had exerted a negative impact on the listing of initial public offer (IPO) of banks and Non-Banking Financial Companies (NBFCs) in the stock exchanges establishes the fact that Global Financial Crisis spread like a contagion and impacted the financial sector across the globe. The Mean value is 1.29.

As mentioned above, that India provides a congenial business ecosystem is proved by the findings of the primary data also. With reference to the query regarding whether listing rules have acted as a catalyst in the listing of initial public offer (IPO) of banking and Non-Banking Financial Companies, it can be observed that majority of respondents have accepted that listing rules have really acted as a catalyst in enhancing the listing of initial public offer (IPO) of banks and Non-Banking Financial Companies. The Mean value is 1.28.

It is quite impressive to note that post initial public offer (IPO) performance has been positive. The issue of initial public offer (IPO) by banks and Non-Banking Finance Companies (NBFCs) operating under both public and private sectors have assisted them phenomenally in improving their significant financials, i.e., Return on Assets and Return on Equity. It is proved from the primary data analysis. For public sector banks, the Mean value is 3.74; for private sector banks it stood at 3.76 and for Non-Banking Finance Companies is 3.80.

REFERENCES :

1. Haralayya B, Aithal PS. A Study On Structure and Growth of Banking Industry in India. International Journal of Research in Engineering, Science and Management 2021; 4(5): 225-230.

2. Haralayya B. Retail Banking Trends in India ,International Journal of All Research Education and Scientific Methods 2021; 9(5): 3730-3732.

3. Haralayya B, Aithal PS. Factors Determining The Efficiency In Indian Banking Sector: A Tobit Regression Analysis. International Journal of Science & Engineering
Development Research 2021; 6(6): 1-6.

Haralayya B, Aithal PS. Implications of Banking Sector On EconomicDevelopment In India. flusserstudies 2021; 30:1068-1080.

5. Haralayya B, Aithal PS. Study on Productive Efficiency
of Financial Institutions. International Journal of Innovative Research in Technology 2021; 8(1): 159-164.

6. Haralayya B. Study of Banking Services Provided by
Banks in India. International Research Journal of **Haralayya B et al. Adv. Res. Pub. Poli. Admn. 2021; 5(2)** Humanities and Interdisciplinary Studies 2021; 2(6): 06- 12
7. Haralayya B, Aithal PS. Analysis of Bank Performance
Using Camel Approach. International Journal of Emerging Technologies and Innovative Research 2021; 8(5): 305-314.

Haralayya B, Aithal PS. Analysis of Bank Productivity Using Panel Causality Test. Journal of Huazhong University of Science and Technology 2021; 50(6): 1-16.

9. Haralayya B, Aithal PS. Inter Bank Analysis of cost
efficiency using mean. International Journal of Innovative Research in Science, Engineering and Technology 2021; 10(6): 6391-6397.

10. Haralayya B, Aithal PS. Analysis of total Factor Productivity and Profitability Matrix of Banks by Hmtfp and Fptfp. Science, Technology and Development
Journal 2021; 10(6): 190-203