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A STUDY ON SHORT RUN PRICE PERFORMANCE OF INITIAL PUBLIC OFFERINGS IN INDIA FROM 2012 – 2022

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ABSTRACT

This study examines the listing day performance of Book built IPOs which are listed in NSE from the financial year 2012 to 2022. This study also examines the post listing price performance of the issues like, listing day returns of the issues, returns after 1 month, 3 months, 6months, 9 months and 12 months. 236 issues out of 275 book built issues listed in NSE were taken for the study, 39 issues were not considered due to not listing and trading reasons. Raw returns (listing returns) and Market adjusted excess returns were calculated for the IPOs to know the post listing returns to the investors for these time periods. Market adjusted excess returns were calculated .find out the effect of listing lead time delay in the performance of the issues. Annualized raw returns and Annualized market returns were calculated to normalize the time delay of different companies in different time period Wealth relative index has been calculated to study the extent of underpricing of the issues during the period. Findings of the study reveals that the listing performance of the issues are high and they are mostly underpriced, but the performance reduced after one month and there is a huge improvement from 3to 9 months and it reduced after one year from date of the issue. This study concludes that, the IPOs provide good returns in listing day and also in short run.

KEYWORDS: IPO, Raw returns, Market returns, Annualized returns, Wealth relative index.

INTRODUCTION

Initial Public offerings (IPOs) are the major source of companies to get capital for their businesses through primary market, there are many ways for raising funds from primary market like private placement, rights issue, offer for sale etc., But the IPOs are grabbing the attention of the companies for raising capital. The Investors can avail lucrative investment opportunities and the money can be mobilized from low growth opportunities to high growth opportunities in India. Book building method shows a drastic improvement in India from the year 2000 and now most of the companies are choosing this way to go for public. After the Global Economic Crisis (2008) the IPO market in India shows a significant improvement and the issue size. In the year 2012 there are 14 IPOs raised 127crores and the issues are increasing every year reached 110 issues raised 1995 crores. Since, the issuers are transforming their businesses in IPOs market by going public. The year 2020 is very favorable with the indices Nifty 50 is at 12,362 and Sensex is at 41,952 point on 14th January,2020. The pandemic Covid-19 had severely affected the world economically, *Sensex and Nifty fell by 38% and Market capitalization by 27% (S.Ravi).Surprisingly*. The entire stock market witnessed the decreased returns, high liquidity and market volatility is consistent *Rishika Shankar and priti dubey(2021)*This pandemic does not affect much IPO market in India. Nearly 40 to 50 companies went for public issue during 2020.The issues are raising rapidly recent years 268 IPOs are issued in the year 2024 with an outlay of 1.67 lakh crores. The 268 IPOs in 2024 comprised 90 listings on the Main Board and 178 on the SME platform, collectively raising approximately Rs 1.67 lakh crore. 1145 listing were recorded globally in the year 2024 which is slightly lower than 1,271 in 2023. But India is performing outstandingly accounting to quarter of Asia's IPO activity in 2024.

Country	**Exchange**	**No of IPOs**
India	NSE	268
Japan	Japan exchange group	93
China	Shanghai stock exchange	101
Hong Kong	Hong Kong exchange group	66

Source: Money control

Existing Literature on short run analysis of IPOs:

Jay Ritter(1991):Studied 1,526 IPOs in US and revealed that the offer price is not too low for the issues and initial after market performance is higher than the long run and it is underperformed. ***Brownhilder N. Neneh and A. Van Aardt Smit (2013***) revealed to gain the profits in short run, an investor has to sell his shares after one month of listing and the issues are mostly underpriced in hot issues market by studying 360 IPOs in JSE. ***Libison K.B and N.V.Narasimham (2010):***Tested the winner curse hypothesis and found that there is no relation between issues and investors, and also found the informed and uninformed investors will gain in initial days due to underpricing and upto 8 weeks. ***Himanshu puri (2012):***Analysed 100 IPOs issued between 2008 to 2011 and stated that initial returns are high and investors will get decent returns on 7th day after listing and goes to negative returns on 30th day**.**

Sanjay Dessai (2015) analyzed the post listing performance from 6 months to 36 months by dividing the issues in 6 different sectors and reveals that the returns are positive during initial days and decreasing year by year. Except Jewellery sector all the sectors are showing negative returns. ***Smruthi vakil (2018)**:* By considering different factors conducted a survey on retail investors and resulted that the investors are satisfied now a days with IPOs and its performance.

Objectives of the Study: The study analyses both initial day performance and short run performance of IPOs, therefore the objectives are

1. To ascertain the initial day performance of Book Built IPOs in India.
2. To analyse the post listing performance (Upto 12 months after listing) of Book built IPOs in India.

RESEARCH METHODOLOGY:

Sample and Data: The sample of 236 Book Built IPOs listed in NSE from April 2012 to March 2022. 275 issues went for public through Book building method in NSE but finally 39 issues were not listed and traded and finally the sample of the study restricted to 236.

The data has been collected from NSE Website and the details of issues has been taken form different secondary sources.

METHODOLOGY:

The methodology has been used in the present study is consistent and many researchers used in their past studies.

Return on particular day is the difference between the closing price of the first day and the offer price, divided by the offer price.

$$\mathbf{Ri = P_1 - P_0 / P_0 \ X\ 100}$$

Where R_i = Subscribers initial return (Raw return)

P_1= Closing price on the first day of trading

P_0= Offer price

The Individual stock returns for the different time gaps like after (1 month, 3 months, 6 months, 9 months and 12 months) has been calculated by using the formula.

$$\mathbf{R\_Ret_{.t} = P_t - P_0 / P_0 \ X\ 100}$$

Where $R\_Ret_{.t}$ = Raw return of the stock I at time t after listing day

P_t = Closing price at time t

P_0 = Closing price on listing day

The raw returns has been adjusted with the market returns by using the below formula.

$$\mathbf{MAER = (P_1 - P_0 / P_0) - (M_1 - M_0 / M_0)\ X100}$$

Where MAER = Market Adjusted Excess Return

M_1 = Market index on the first day of trading

M_0 = Market index on the offer date

Similarly as raw returns for different periods the market adjusted excess returns for different time periods like (1 month, 3 months, 6 months, 9 months, 12 months) has been calculated by using the formula.

$$\mathbf{MAER_{it} = (P_t - P_0 / P_0) - (M_t - M_0 / M_0)\ X100}$$

Where $\mathbf{MAER_{it}}$ = Market Adjusted Excess Return at time t

M_t= closing value of the index at time period t

M_0 =closing value of the index on listing day

The time taken for the listing varies for different companies, so to normalize for this annualized return has been calculated by multiplying raw and MAER by the following formula.

$$\textbf{Annualizing factor} = \frac{365}{\text{After Market trading Lead time}}$$

The wealth relative index is another measure to indicate the performance of IPOs in the market. A wealth relative of value 1 or greater than 1 implies that the IPOs are outer performed the market in that period. If the value is less than 1 indicates the underperformance of the issues.

Data Analysis and Interpretation:

Table 1: Returns over short run.

Time frame	**R_Ret (%)**	**MAER (%)**
On the listing day	20.56	20.38
1 month after listing day	2.08	1.35
3 months after listing day	8.05	5.09
6 months after listing day	17.86	13.71
9 months after listing day	17.96	11.88
12 months after listing day	15.3	5.78

The overall returns are shown in the above table, these are average of raw returns obtained from the listing day of each and every IPO, 1 month after listing day, 3 months after listing day, 6 months after listing day, 9 months after listing day, 12 months after listing day. To compare the market returns, the average of market returns during the same period has been taken from NSE Nifty.

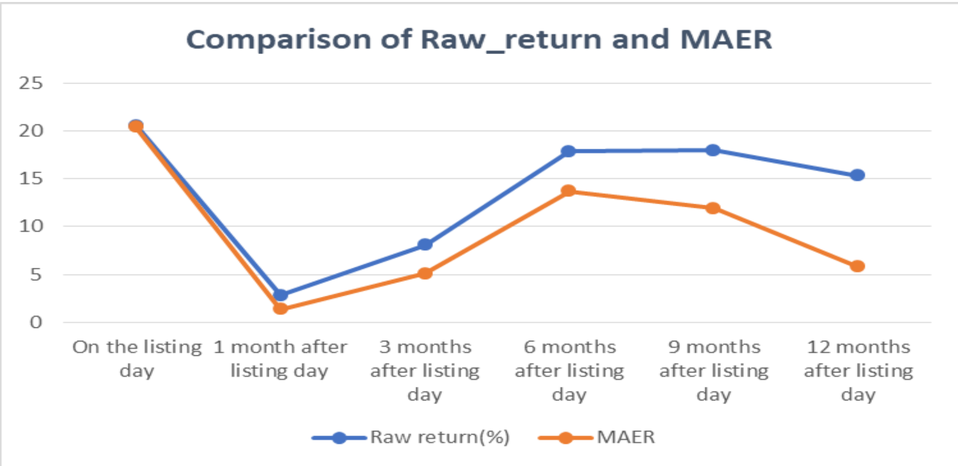

Fig 1 : Comparison of Raw returns and Market Adjusted Excess.

RETURNS

As we can see in the above table 1 that the raw returns market returns are quite high on the listing day (20.56%) and have fallen drastically over a month period of time, Surprisingly increased the returns in , 6, and 9 months.slight decrease recorded in the 12th, Many studies shows that the retruns are high during listing day and the trend shows down in later months. But adversly the results in this study reveals a positive trend in later years.

The stock markets in India outer performed in the following years with good returns 2014 (31.39%) ,2017 (26.85%), 2021(24.12%). So, study shows that the IPOs are performing well in the short run and also in long run adversing to the existing literature.

Table 2: Comparison of Max.and Min.R_Ret.and MR_Ret.

Time Frame	N	Max R_Ret	Max.MR_Ret	Min.R_Ret	Min.MR_Ret
On the listing day	236	267.17	10.47	-27.4	-17.38
1 month after listing day	236	193.02	12.37	-37.96	-14.65
3 months after listing day	236	289.11	29.68	-63.2	-32.87
6 months after listing day	236	509.18	28.26	-87.3	-87.68
9 months after listing day	236	230.78	48.76	-81.3	-87.33
12 months after listing day	236	397.38	62.11	-91.46	-28.75

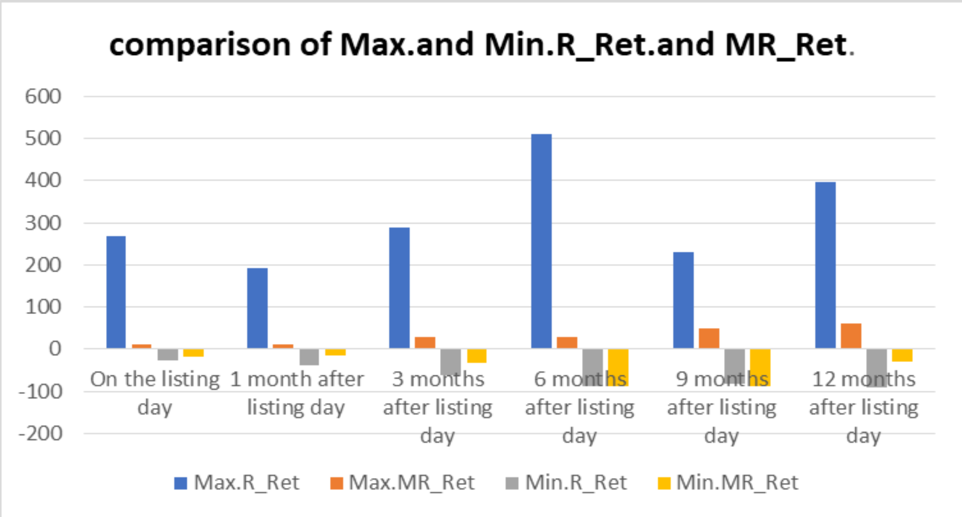

Fig 2: Comparison of Max.and Min.R_Ret.and MR_Ret

The maximum return earned by an investor during the listing day 267.17% more than the issued price, whereas the minimum loss incurred by an investor is -27.4 %.The investors gained maximum returns after 6 months of the listing day (509.18%) and the maximum market returns occurred in the 12 month after the listing day. Few Companies performed well in their later months also after its listing, resulting in the drastic variations of the returns.

Annualized raw return and Annualized Market return:

The listing lead time has been considered and the annualised raw returns for both IPOs and the market have been calculated. It provides the returns obtained from IPOs more comparable and also the inclusion of this listing lead time factor nullify the effect of the time taken to list in the market or varying the number of days taken by the companies to list in the exchange on the extent of underpricing. It provides a better picture of price performance as well as phenomenon of IPOs.

Table 3: Values of Annualized raw return and Annualized Market return.

Time Frame	N	Ann R_Ret	Max Ann R_Ret	Min R_Ret	Ann MR_Ret	Ann Max MR_Ret	Ann Min MR_Ret
On the listing day	236	786	8276	-1250	4.15	250.97	-576.84
1 month after listing day	236	104	7828	-1770	58.1	466.33	-414.04
3 months after listing day	236	303.6	10742	-2883.77	115.21	1083.52	-1499.9
6 months after listing day	236	668.15	20650.18	-3420.2	162.95	1284.05	-3555.92
9 months after listing day	236	684.93	9653.11	-3264.22	239.9	1657.7	-2897.9
12 months after listing day	236	566.9	13762.5	-3516.4	367.74	2654.88	-1236.13

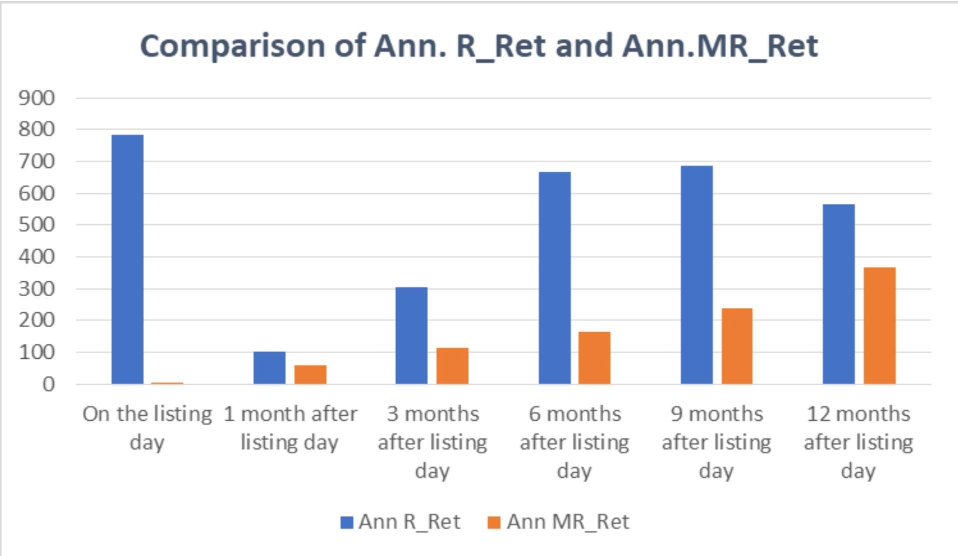

Fig.3: Comparison of Ann. R_Ret and Ann.MR_Ret.

If we look the table 3 and figure 3 simultaneously we can understand the difference in the annualized raw returns of the IPOs are declining upto 3 months of lisitng later it has been increased and the same trend continues in the annualised market returns also. The above figure shows the phenomenon of high returns on the listing day in the short run and the trend increases at 6 months, later it decreases by 12 months. It shows the lesser amount of loss possibilities compared to the market loss.

MAER and Annualized Market Adjusted Excess Returns portrays the excessive number of returns that the investors gain over and above the market returns. The phenomenon of underpricing reflects its true manner by nullifying the effect of listing delay takes place in the IPOs with the help of Ann MAER.

Table 4: Values of MAER and Ann MAER:

Time Frame	N	MAER	Max MAER	Min MAER	Ann MAER	Ann Max MAER	Ann Min MAER
On the listing day	236	20.38	266.17	-26.3	781.01	8284.15	-1173.63
1 month after L day	236	1.35	191.01	-37.51	45.53	7746.57	-1956.1
3 months after L day	236	5.09	286.94	-69.59	188.39	10581.42	-2467.44
6 months after L day	236	13.71	596.86	-93.84	505.2	24206.1	-3520.76
9 months after L day	236	11.88	216.29	-90.95	445.03	8772.07	-3399.88
12 months after L day	236	5.78	342.45	-105.66	199.15	11363.38	-4710.51

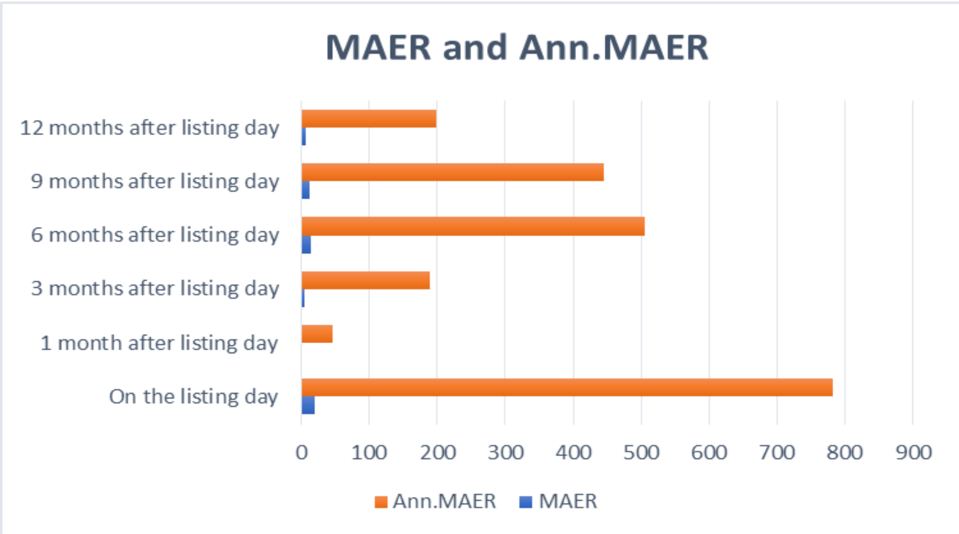

Fig.4: Comparison of MAER and Ann MAER:

The above table and figure clears that, we can simply take market adjusted excess returns are so but when we considered the Annualized Market adjusted Excess returns it simply surpasses the MAER and shows the scope of Underpricing in the market. On the listing day the investors can gain significant Market adjusted Excess Returns but after one month the returns drastically decreased surprisingly up to 3 months, the market returns for the IPOs gives negative returns and gained after 6months and again declined in 12 months. The returns here are depending upon the market volatility.

Wealth Relative (Index)

Underpricing has predominant role in price performance of IPOs and helps to the investors for their valuation of money invested for their subscription. The Wealth relative is an efficient measure to evaluate the short run price performance of IPOs. Simply Raw returns and Market returns are shown in the above table 1 (Returns over short run) and its percentages are shown in its Annualized raw returns and Market returns. In the below figure the values of underpricing has been compared with unity i.e.,1.If the wealth relative value is greater than 1 it is undepriced,

Table 5 : Wealth Relative Index

Time frame	Bench mark value	value of wealth relative
On the listing day	1	1.087
1 month after listing day	1	1.017
3 months after listing day	1	1.046
6 months after listing day	1	1.093
9 months after listing day	1	1.101
12 months after listing day	1	1.105

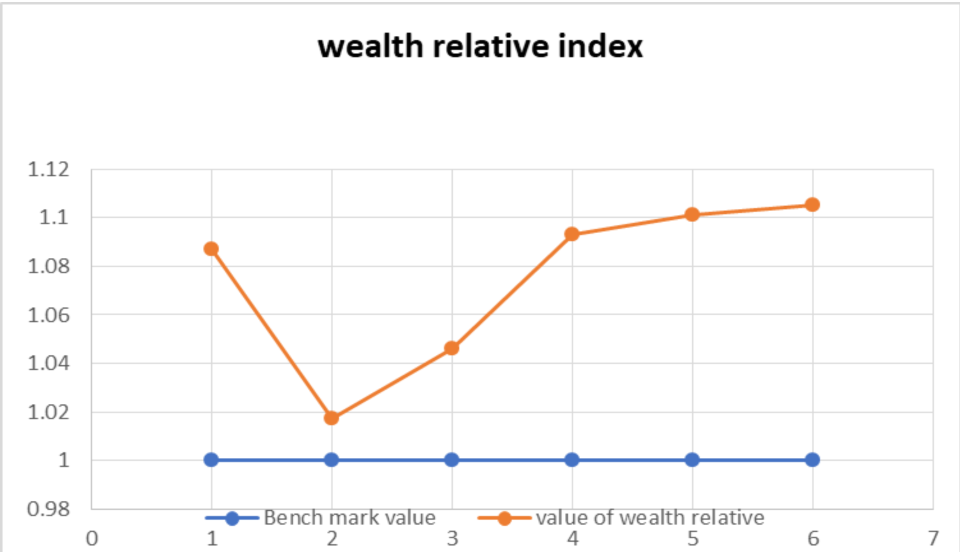

Fig.5 Comparison between Wealth Relative Index with its Benchmark value.

In this study the the extent of underpricing on listing day is 87% and it is only 17% after one month of the listing day. so, the extent of underpricing reduced and returns also reduced. 46% and 93 % recorded in the 3months and 6 months after listing day and 101% and 105% more in the 9 months and 12 months after listing day.

The above table shows that the percentage values of the extent of underpricing of the issues and it is evidence on the listing day the investor earns approximately 105 % returns.The returns normalizes with the market behaviour in the long run. Thus this wealth relative is a measure to verify the extent of underpricing present in the market in short run.

Findings:

1. It is very clear the underpricing is more severe at listing day and with in weeks to months the returns to investors are declining and there is a little bit improvement after 3th month.
2. There are few issues performed very well in later years due to companies' individual performance and coping up with the market behavior.
3. This study reveals that the majority of the companies went for public issue providing significant returns higher than the expectancy after 3 months, because majority of the issues performed well not only during listing day but also in later months.
4. MAER and Annualized MAER also shows the investors returns are very high during initial days and it is declining up to 6 months and increased at 9th month and declined at 12th month.
5. The wealth relative index provides that the value is 1.087 on Initial day which means on the initial day the returns are 87% to the investors, later within months it comes down the below benchmark 1. Slowly raises after 3 months to 12 months.

Suggestions:

1. The performance of the issues is depending on the market conditions and movements; Hence, it is suggested that if the borrowers raise the capital at bullish market the investors will be positive to buy and the returns for the investors will be high.
2. From the previous studies and literature, it is very clear that the initial day performance is very high and returns are also very high, but the same trend is not continuous due to several reasons. It is suggested that the companies should care about the investors in later days also for gaining good returns.

3. It is suggested the SEBI should monitor the Book Building process of the issues, because the price band fixation and its performance should be clearly known to the uninformed investors.

CONCLUSION

From the above analysis it is clearly concluded the performance of the issues are very high at initial day and the investors will gain good returns. Later the trend is not continuous and the investors will lose definitely after few weeks who are buying and holding the shares. We can also come to a better conclusion after analyzing the long run performance of the issues.