A Study On Listing Day Performance Of Initial Public Offering

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ABSTRACT

An Initial Public Offering (IPO) is one of the vital types of public offering where private companies raise funds from the public at first time and later on these shares are traded on stock exchanges for liquidation by the investors. Pricing of securities on the stock market is based on various factors such as performance of the company, age of the company, IPO grading, Net Asset Value, etc. During listing, the common experience on pricing are underpriced, overpriced or correctly priced. In this paper, the author has done a conceptual study and experimented, by reviewing the various papers on factors influencing IPO and prepared a Conceptual model and analyzed by taking IPOs from January 2018 to March 2018. It is revealed that the performance of the company has impact on the pricing of securities on stock market. It is found from the study that most of the companies’ stocks are underpriced by the underwriter.

Key words: Initial Public Offering IPO, Overpricing, Underpricing, Company Performance

1 INTRODUCTION

Generally Initial public offering (IPO) refers to selling shares of a company to institutional investors that in turn sell to the general public on a security exchange for the first time. Through this process, a privately held company transforms into a public company. Companies raise their capital and to become publicly traded enterprises. A company selling shares is never required to repay the capital to its public investors. Hence the IPO facilitates the money among public investors.

The common factors to be considered before applying for an IPO are Historical record of the firm, Promoters, their reliability and Past performance records, Products offered by the firm and
their potential going forward, whether the firm has entered into a collaboration with technological firm, Project value and various techniques of sponsoring the plan, Productivity and Risk. The objective of the study is to analyze the Performance of Recent Initial Public Offerings of the Companies. The variables for performance are Total Assets, Total Revenue and Profit after Tax. The main purpose of the study is to compare the issue price and listing price of recent IPO’s and the conceptual model developed by the author of the study is given in Figure 1.1:

![Figure 1.1 Conceptual Model](image)

2 REVIEW OF LITERATURE

Based on the objective of the study, Company Performance and IPOs pricing has been taken up as the major factors and the author has completed a concise review of literature on the same and is given below:
Hawaldar, Kumar and Mallikarjunappa (2018) examined the listing day performance of IPOs, book-built and fixed price IPOs, post-listing aftermarket performance of IPOs, book-built and fixed-price IPOs in the Indian stock market. They revealed that compared to fixed-price IPOs, book-built IPOs are underpriced by lesser magnitude and book-built IPOs are associated with negative Cumulative Average Abnormal Returns.

Sidana and Sidana (2017) studied the grading of IPO in Indian Capital Market impede the problem of underpricing and found that the reason for underpricing is the less informed retail investors who are having less analytical knowledge to understand the disclosure made in offer documents and further the researchers found that there was a significant impact of IPO grading on underpricing. Kumar (2017) studied factors influencing underpricing of IPOs on service sector and revealed that the issuers underprice more their IPOs despite having better EPS values, most likely to meet the competition in the market on account of timing of issues. Further the author found that Net Asset Value and underpricing are positively correlated.

Chandrakala and Oviya (2017) studied the post-performance of IPO’s, Overall performance of IPO and to find out the percentage of return on IPO and suggested that the companies must provide aftermarket support in terms of maintaining and supporting trading in the stock, providing subsequent research reports on the company. Ambily, et.al., (2016) studied the performance of IPOs and found that the investors prefer to purchase at lower rate by comparing issue price and last trade price and the last trade price always be higher than the issue price.

Ranjitha and Joseph (2016) analysed the short term and long term performance of Initial Public Offerings and revealed that investors has to exit in the first week of the listing with considerable abnormal returns. The major factors affecting the issuance of shares through IPO are volatility of market, global meltdown, merchant bankers, amendments in the statues and government stability, Agrawal and Bakliwal (2015).

Divya (2013) studied the performance of Indian IPOs during the financial year 2010-2011 and revealed that most IPOs are of companies going through a transitory growth period and they are subject to additional uncertainty regarding their future value. Gajewski and Gresse (2006)
surveyed 15 European countries by analyzing the various features of the European IPO market such as listing requirements, IPO-mechanism choices, performance and secondary market liquidity. From the study, it was revealed that book-building mechanism was used for IPO issues and there was a significant underperformance of IPOs over the 3 years horizon. They found that there exist a relationship between initial returns and post-listing liquidity in the short and the long-run. Ranjan and Madhusoodanan (2000), pointed out that IPOs in India have yielded abnormal returns in the very short term. The abnormal performance is also indicative of pricing errors in the issue process. The issues are under-priced whether the mechanism is fixed price or book building; they found that small size issues are more likely to be under-priced than larger issues. They formulated a model with homogenous investor beliefs to show that size is an important factor and that the underpricing is inversely proportional to size. This mechanism also suggests that IPOs will always be Underpriced.

Durukan (2002) has analyzed the factors affecting short and long run IPO returns, considers consistency with other research and supports the winner’s curse and the fads hypotheses. He concluded that initial abnormal returns are due to both deliberate underpricing and overvaluation by investors’ and that factors which decrease uncertainty lead to lower returns.

3 RESEARCH DESIGN

In this study, Descriptive Research Design has been used. The necessary data to find solution for the objective is secondary data. When data are collected from the published nature or any other’s primary data is called secondary data which has been collected from chittorgarh websites. It contains list of companies, their issue price and listing price with specified dates. Sampling technique used for the study is purposive sampling technique. The number of companies taken up for the study is 7 and the period of study is from January 2018 to March 2018. For the data analysis, percentage analysis method has been used.

4 DATA ANALYSIS AND INTERPRETATION
The performance of IPOs for the sampled companies which contain list of companies in NSE from January 2018 to March 2018 are analyzed such as their issue prices and listing prices with the specified dates, initial performance, over subscription and under subscription of the shares and percentage increase – decrease of shares by difference between issue price and listing price are given in table 4.2. The performance of IPOs also presents the financial condition of these companies during the issue date and listing date of the shares are presented in table 4.1.

Table 4.1 Financial Performance of Companies

| Particulars | For the year ended (in Rs. Million) | | | | | | \hline
| Particulars | 31-3-17 | 31-3-16 | 31-3-15 | 31-3-14 | 31-3-13 | PAT | Increased / Decreased |
\hline
Total Assets | 2,458.57 | 2,029.58 | 1,347.19 | 849.16 | 458.1 | | |
Total Revenue | 2,117.99 | 1,595.32 | 1,087.68 | 728.82 | 374.58 | | |
| Pat - Appollo Micro Systems Limited | 185.71 | 100.01 | 74.48 | 53.34 | 29.59 | Increased |
Total Assets | 4,467.11 | 3,892.55 | 3,243.41 | 2,650.47 | 1,578.12 | | |
Total Revenue | 4,337.65 | 3,496.70 | 3,162.13 | 2,551.65 | 2,055.49 | | |
| Pat - Newgen Software Technologies Ltd | 523.62 | 278.2 | 463.8 | 410.81 | 369.55 | Increased |
Total Assets | 12,865.68 | 11,149.91 | 10,058.49 | 8,610.85 | 7,511.64 | | |
Total Revenue | 16,522.55 | 10,921.15 | 12,364.67 | 9,797.00 | 8,823.37 | | |
| Pat - Amber Enterprises India Ltd | 278.99 | 241.04 | 287.73 | 222.04 | 196.99 | Increased |
Total Assets | 12,853.83 | 11,092.34 | 10,602.19 | 10,240.81 | 9,556.85 | | |
Total Revenue | 21,717.00 | 18,087.55 | 18,760.26 | 17,015.78 | 15,822.68 | | |
| Pat - Galaxy Surfactants Limited | 1,463.06 | 1,027.18 | 674.56 | 759.97 | 2.78 | Increased |
Total Assets | 68,072.77 | 57,557.82 | 44,120.27 | | | |
Total Revenue | 59,679.02 | 52,751.63 | 38,990.49 | | | |
| Pat - Aster DM Healthcare Ltd | 2,667.47 | 82.11 | 2,721.07 | | | Increased |
Total Assets | 5,380.18 | 3,753.92 | 2,249.66 | 2,148.10 | 2,265.99 | | |
Total Revenue | 9,739.72 | 7,148.02 | 3,377.33 | 4,465.84 | 3,254.40 | | |
| Pat - H.G. Infra | 492.97 | 301.83 | 92.22 | 171.71 | 134.9 | Increased |
### Engineering Ltd

<table>
<thead>
<tr>
<th></th>
<th>86,007.92</th>
<th>96,406.32</th>
<th>84,119.70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>51,980.73</td>
<td>46,013.75</td>
<td>32,532.28</td>
</tr>
<tr>
<td>PAT - Bharat Dynamics Ltd</td>
<td>4,903.19</td>
<td>5,620.69</td>
<td>4,435.48</td>
</tr>
</tbody>
</table>

**Source:** Authors Compilation

### Table 4.2 Comparing Issue Price and Listing Price

<table>
<thead>
<tr>
<th>NAME OF THE COMPANY</th>
<th>Issue Open</th>
<th>Issue Close</th>
<th>Issue Price (Rs.)</th>
<th>Price Range</th>
<th>Listing Date</th>
<th>Listing Price</th>
<th>Pricining</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appollo Micro Sysems Limited</td>
<td>10-1-18</td>
<td>12-1-18</td>
<td>275</td>
<td>270-275</td>
<td>22-1-18</td>
<td>465</td>
<td>Under Priced</td>
<td>69.1</td>
</tr>
<tr>
<td>Newgen Software Technologies Ltd</td>
<td>16-1-18</td>
<td>18-1-18</td>
<td>245</td>
<td>240-245</td>
<td>29-1-18</td>
<td>254.1</td>
<td>Under Priced</td>
<td>3.67</td>
</tr>
<tr>
<td>Amber Enterprises India Ltd</td>
<td>17-1-18</td>
<td>19-1-18</td>
<td>859</td>
<td>855-859</td>
<td>30-1-18</td>
<td>1175</td>
<td>Under Priced</td>
<td>36.8</td>
</tr>
<tr>
<td>Galaxy Surfactants Limited</td>
<td>29-1-18</td>
<td>31-1-18</td>
<td>1480</td>
<td>1470-1480</td>
<td>8-2-18</td>
<td>1525</td>
<td>Under Priced</td>
<td>3.04</td>
</tr>
<tr>
<td>Aster Dm Healthcare Ltd</td>
<td>12-2-18</td>
<td>15-2-18</td>
<td>190</td>
<td>180-190</td>
<td>26-2-18</td>
<td>183</td>
<td>Over Priced</td>
<td>-3.68</td>
</tr>
<tr>
<td>H.G. Infra Engineering Ltd</td>
<td>26-2-18</td>
<td>28-2-18</td>
<td>270</td>
<td>263-270</td>
<td>9-3-18</td>
<td>270</td>
<td>Exactly Price</td>
<td>0</td>
</tr>
<tr>
<td>Bharat Dynamics Ltd</td>
<td>13-3-18</td>
<td>15-3-18</td>
<td>428</td>
<td>413-428</td>
<td>23-3-18</td>
<td>370</td>
<td>Over Priced</td>
<td>-13.6</td>
</tr>
</tbody>
</table>

**Source:** Authors Compilation

From the tables it is inferred that when there exists a consistent growth in the company’s Profit After Tax such as Appollo Micro Sysems Limited, Newgen Software Technologies Ltd, Amber Enterprises India Ltd and Galaxy Surfactants Limited, the IPOs are performing well i.e. IPOs are underpriced by the underwriters and there exist a positive percentage except Aster Dm Healthcare Ltd, whereas, H.G. Infra Engineering Ltd is exactly priced and Bharat Dynamics Ltd has been overpriced by the underwriter.
5 CONCLUSION

IPOs are subject to market risk, hence it is important to understand before investing. It can be suggested that instead of investing in all the IPOs, it is better to invest in few selected IPOs based on the performance of the company. There is a need to study historical data, issue and listing prices and to evaluate IPO performance in different sectors. The investors should analyze the prospectus of the company performance on individual basis and take the decision of investments very carefully before investing. It is advised to check out the sectors, the management, the concept, the product and the accounts. The limitation of the study is that the study has been undertaken at micro level i.e. taking only 7 companies and the period of the study is only 3 months.

REFERENCES


