

RETURNS OF INITIAL PUBLIC OFFERING IN SHORT TERM AND LONG TERM PERIOD

Dr. Aabha S Singhvi, Dr. Pankajray Patel and Yash Doshi

Abstract

The study was done to understand the short term and long term IPO performance. In order to achieve this, we have obtained returns on the day of issue, 30 days after the date of issue. It can be seen that returns obtained by investing in the IPO issued on NSE is more than the return obtained by investing in the IPO issued on BSE. The research paper will help the investor to understand when is the right time for investor to make an exit from the time the investment is made and how much average return the investor can make if he exits its position on the stock. Initially the IPO after getting listed market under performance is negatively related to the size of the firms, suggesting that large IPOs should expect less negative future returns. Similar to the short-term, market condition plays an important role in the aftermarket. The IPOs with excess initial returns tends to offer extremely negative in the long term. The question that is raised is how to interpret the significantly long-run underperformance that follows the IPOs. The IPO's offered average positive returns on the day of issue, 30 days after the day of issue irrespective of the stock exchange on which the stock is been issued. This result is in contrary to the past result which reveals that the IPO's underperform after 30 days of issue. The above research paper will help the investor to make required returns if they buy the stocks and sell them at right time.

Key Words:

I. Introduction

An initial public offering (IPO) is the first time that the stock of a private company is offered to the public. IPOs are often issued by smaller, younger companies seeking capital to expand, but they can also be done by large privately owned companies looking to become publicly traded. In an IPO, the issuer obtains the assistance of an underwriting firm, which helps determine what type of security to issue, the best offering price, the amount of shares to be issued and the time to bring it to market. There are many IPOs coming one after another recently. So an attempt has been made by many companies to approach the capital market for long term money. It is always a risk factor involved in investing in IPO for the small investors. There are some companies who gain huge profit after getting listed whereas some companies who open at a low price than the price band. There is a method for raising IPO called book –building method, where the price band is

given to them. India has a transparent and efficient market where the investors are given prospectus in an IPO offering. SEBI takes care of IPO with the help of CARE, ICRA, CRISIL. These are rating agencies for IPO. The issuing company discloses the IPO grade and then registers with the Registrar of Companies.

II. Literature Review

Hawaldar, Naveen Kumar and Mallikarjunappa (2018) in their paper discovered that IPOs who used book building were underpriced compared to fixed price IPOs. Malhotra and Premkumar (2017) found that IPOs underperformed in the long run. Madhuri Malhotra & N. Premkumar (2017) undertook an investigation on Long run performance of initial public offerings in India and findings from that are the variables like age, time lag, and company size don't influence the long-run performance of IPO in the listed firms on National Stock Exchange. Hoechle, Karthaus & Schmid (2017) said that firms underperformed over two years. Poornima, Haaji and Deepha (2016) found that IPOs are used as investment tools.

Alberto Dell and Leonardo L. (February 2015), Sample of 129 IPO on the Italian Stock Exchange from January 2001 to December 2012 by researcher. It was confirming the presence of underpricing in two thirds of the sample offerings. The average stock performance 30 days after the listing is lower than the average first day return, evidence that is mainly explained by temporary actions of price support by underwriters. Finally, the researcher analysis that a series of multivariate regression analyses and found that various factors exercise an influence on the IPO underpricing level, specifically: firm size, after market risk, market demand, shares retention by existing shareholders and financial crisis.

Alex A. A. Bruce and P. M. C. Thilakaratne, (2014), The researcher was trying to explain in this study that the IPOs performance volatility is inevitable as far as a real efficient market. **Bagher Shamszadeh Arezo Bakhtiari, (December 2015)**, In this study researcher studied the earnings management in the initial public offerings of corporate shares at Tehran Stock Exchange (TSE). The researcher used a sample of 47 companies listed on TSE from 2000 to 2009. The results showed that the manipulation was done before the admission to the Stock exchange.

Ishwara. P, (2012), Researcher examine at the performance of IPOs, 74 % of the total of 222 listed from 1-4-2007 to 31-3-2010 were trading below their issue price. So post performance of IPO was done. Almost 93% and above issues in 2010 were below their issue price. The study result shows that Issues with Grade 4 yielded high losses compared to other low grades. When on the listing day the issues with Grade 1 and Grade 3 proved to be beneficial to the investors marginally. Grade 2 and Grade 4 issues resulted in losses.

III. Research Methodology

Type of study: Descriptive, this study has been done for Indian economy. Only those IPOs were selected which were registered under SEBI and listed on NSE and BSE. So listing was essential criteria in selection of companies. Then only those were selected which brought IPO from January 2019 to January 2021. Their performance till 16th March 2021 was collected.

Sample size: 35

Source of information: Financial website like NSE, Wikipedia.

Market Return for short term = (Closing price of first day- opening price of first day)/ opening price of first day

Daily Return of stock was calculated using, $R_{it} = (P_{it} - P_{i,t-1}) / P_{i,t-1}$

P_{it} was current price and $P_{i,t-1}$ was previous day price.

Everyday return was calculated. Average return was taken of 30 days.

A. HYPOTHESIS (Short Term and Long Term data of IPOs of 2019)

H0: Returns of IPOs of short term and long term return is equal.

H1: Returns of IPOs of short term and long term return is not equal.

B. HYPOTHESIS (Short Term and Long Term data of IPOs of 2020)

H0: Returns of IPOs of short term and long term return is equal.

H1: Returns of IPOs of short term and long term return is not equal

C. HYPOTHESIS (Short Term and Long Term data of IPOs of 2021)

H0: Returns of IPOs of short term and long term return is equal.

H1: Returns of IPOs of short term and long term return is not equal.

Objectives of study

1. To analyze post –IPO performance of selected companies.
2. To find the performance for the short term i.e. 30 days from the day of trading after listing.
3. To measure performance in the long run, up to 1 year from the day of trading after listing in stock exchange.

Scope of the Study

The study was limited to India. That is study was limited to NSE and BSE. The time period was also from January 2019 to January 2021. So pre covid and post covid period was covered. This study could be of relevance for managers in the context of importance of different events towards the objective of wealth maximization. Recent developments made in the Indian economy that induce investors to interest in the market. Investors want to know the efficiency of the stock market. The small and medium investors can be motivated to save and invest in the stock market only if their securities in the market are appropriately priced.

IV. Data Analysis

The table 1 shows that the highest return is in IRCTC Ltd IPO which is 127.69%. Whereas the lowest is Xelpmoc Design and Tech Limited IPO is -9.32%.

The table 2 shows that the highest return is in Burger King India IPO which is 130.67%. Whereas the lowest is UTI Asset IPO is -13.9%.

The table 3 shows that the highest return is in Indigo Paints Limited IPO which is 109.31%. Whereas the lowest return is IRFC IPO which is -4.42%.

<Table 4>

<Table 5>

<Table 6>

It can found (based on table 4, 5 and 6) that that there is difference in short term and long term returns. ANOVA was used to find whether the returns are same or not.

Ho: The returns are equal.

H1: The returns are not equal.

P value is more than alpha (i.e. > 0.05) so we accept the null hypothesis that the Ho is accepted. The long term and short term returns are same. It says that there is no difference in return in long as well as short term.

<Table 7>

<Table 8>

<Table 9>

It can be interpreted (based on table 7, 8 and 9) that p value is more than alpha (i.e. > 0.05) so we accept the null hypothesis that the Ho is accepted. The long term and

short term returns are same. It says that there is no difference in return in long as well as short term.

<Table 10>

<Table 11>

<Table 12>

It can be interpreted (based on table 10, 11 and 12) that p value is more than alpha (i.e. > 0.05) so we accept the null hypothesis that the H_0 is accepted. The long term and short term returns are same. It says that there is no difference in return in long as well as short term.

V. Findings

Objective-1

- 1] Return of IPO in short term is equal to average of all IPO returns in 2019.
- 2] Return of IPO in short term is equal to average of all IPO returns in 2020.
- 3] Return of IPO in short term is equal to average of all IPO returns in 2021.

Objective-2

- 1] Return of IPO in long term is equal to average of all IPO returns in 2019.
- 2] Return of IPO in long term is equal to average of all IPO returns in 2020.
- 3] Return of IPO in long term is equal to average of all IPO returns in 2021.

Objective-3

- 1] Return of IPO for short term and long term is equal in 2019.
- 2] Return of IPO for short term and long term is not equal in 2020.
- 3] Return of IPO for short term and long term is not equal in 2021.

VI. Conclusion

The result of ANOVA shows that the H_0 is accepted which says that the returns of short term and long term are equal. There is no variation. So if the investors wish to invest in an IPO for short term also they will get returns almost near long term returns.

References

Malhotra, M., & Premkumar, N. (2017). *Long run performance of initial public offerings in India*. 9(1), 9.

- MadhuriMalhotraN. Premkumar,"Long run performance of initial public offerings in India",The Business and Management Review, Volume 9 Number 1,7th International Conference on Restructuring of the Global Economy, 3-4th July 2017, University of Oxford, UK
- Alberto dell'acqua, Emanuele Tetia (2015) IPO Underpricing and aftermarket performance in Italy, Journal of Economic & Financial Studies, 03(03), 1-14
- BagherShamszadeh, Earnings Management and Initial Public Offerings (IPOs) at Tehran Stock Exchange (TSE), ISSN 2039-9340, Vol 6 No 6 S6
- Hawaladar, T., Naveen Kumar, K. R., Mallikarjunappa, T. (2018). Pricing and performance of IPOs: Evidence from Indian stock market. Cogent Economics & Finance, 6, 1–20.
- Malhotra, M., Premkumar, N. (2017). Long run performance of initial public offerings in India. The Business and Management Review, 9(1), 206–214.
- Hoechle, D., Karthaus, L., Schmid, M. M. (2017). The long-term performance of IPOs, Revisited. Retrieved from <https://ssrn.com/abstract=2929733>.
- Poornima, D., Haaji, A., Deepha, B. (2016). Study on the performance of initial public offering of companies listed in NSE, India & Gulf Base GCC Index. International Journal of Research in Finance & Marketing, 6(11), 31–46.
- P. Ishwara(2012),post issue performance evaluation of IPO's - an empirical study. Annals of the University of Petroșani, Economics, 9(3), 2009, 341-350
- Alex A. A. Bruce and P. M. C. Thilakaratne, (2014), IPO Stocks Performance Imperfection: A Review of Models and Empirical Works. AJIBM Vol.4 no. 3, March 2014.

List of Tables

Table 1: IPO Issued during 2019

Issuer Company	Issue Open	Issue Close	Issue Type	Issue Size (Crore Rs.)	Issue Price (Rs.)	Listing Day Gain/Loss	No .of shares
Xelpmoc Design and Tech Limited IPO	23-Jan-19	25-Jan-19	BB	23	66	- 9.32%	34,84,849
Chalet Hotels Limited IPO	29-Jan-19	31-Jan-19	BB	1,641.18	280	3.71%	5,86,13,572
MSTC Limited IPO	13-Mar-19	20-Mar-19	BB	212.04	120	- 4.83%	1,76,70,400
Rail Vikas Nigam Limited	29-Mar-	3-Apr-19	BB	481.57	19	0.26%	25,34,57,280

Issuer Company	Issue Open	Issue Close	Issue Type	Issue Size (Crore Rs.)	Issue Price (Rs.)	Listing Day Gain/Loss	No .of shares
IPO	19						
Metropolis Healthcare Limited IPO	3-Apr-19	5-Apr-19	BB	1,204.29	880	9.04%	1,52,69,684
Polycab India Limited IPO	5-Apr-19	9-Apr-19	BB	1,346.00	538	21.75%	1,72,82,000
Neogen Chemicals Limited IPO	24-Apr-19	26-Apr-19	BB	132.35	215	22.58%	61,55,813
IndiaMARTInterMESH Limited IPO	24-Jun-19	26-Jun-19	BB	475.59	973	33.87%	48,87,862
Affle (India) Limited IPO	29-Jul-19	31-Jul-19	BB	459	745	17.46%	61,61,073
SpandanaSphoorty Financial Ltd IPO	5-Aug-19	7-Aug-19	BB	1,202.34	856	- 0.89%	1,40,29,622
Sterling and Wilson Solar Ltd IPO	6-Aug-19	8-Aug-19	BB	3,145.16	780	- 7.01%	4,00,64,102
Vishwaraj Sugar Industries Ltd IPO	30-Sep-19	4-Oct-19	BB	60	60	0.58%	1,00,00,000
IRCTC Limited IPO	30-Sep-19	3-Oct-19	BB	645.12	320	127.69%	2,01,60,000
CSB Bank Limited IPO	22-Nov-19	26-Nov-19	BB	409.68	195	53.90%	2,10,09,067
Ujjivan Small Finance Bank Ltd IPO	2-Dec-19	4-Dec-19	BB	750	37	51.08%	20,27,02,702
Prince Pipes and Fittings Ltd IPO	18-Dec-19	20-Dec-19	BB	500	178	- 6.40%	2,80,89,886

Table 2: IPO Issued during 2020

Issuer Company	Issue Open	Issue Close	Issue Type	Issue Size (Crore Rs.)	Issue Price (Rs.)	Listing Day Gain/Loss	
SBI Cards and Payment Services Ltd IPO	2-Mar-20	5-Mar-20	BB	10,354.77	755	-9.51%	13,71,49,314
Rossari Biotech Ltd IPO	13-Jul-20	15-Jul-20	BB	496.49	425	74.67%	1,16,76,470
Happiest Minds Technologies Ltd IPO	7-Sep-20	9-Sep-20	BB	702.02	166	123.49%	4,22,90,091
Route Mobile Ltd IPO	9-Sep-20	11-Sep-20	BB	600	350	86.03%	1,71,42,856
Computer Age Management Services Ltd IPO	21-Sep-20	23-Sep-20	BB	2,244.33	1,230.00	13.95%	1,82,46,600
Chemcon Speciality Chemicals Limited IPO	21-Sep-20	23-Sep-20	BB	318	340	72%	96,52,940
Angel Broking Ltd IPO	22-Sep-20	24-Sep-20	BB	600	306	-9.85%	1,96,07,840
Mazagon Dock Shipbuilders Limited IPO	29-Sep-20	1-Oct-20	BB	443.69	145	19.31%	3,05,99,017
Likhitha Infrastructure Ltd IPO	29-Sep-20	7-Oct-20	BB	61.2	120	13.83%	51,00,000
UTI Asset Management Company Ltd IPO	29-Sep-20	1-Oct-20	BB	2,159.88	554	-13.97%	3,89,87,081
Equitas Small	20-Oct-	22-Oct-20	BB	517.6	33	-0.76%	15,68,48,485

Issuer Company	Issue Open	Issue Close	Issue Type	Issue Size (Crore Rs.)	Issue Price (Rs.)	Listing Day Gain/Loss	
Finance Bank Ltd IPO	20						
Gland Pharma Limited IPO	9-Nov-20	11-Nov-20	BB	6,479.55	1,500.00	21.36%	4,31,96,968
Burger King India Limited IPO	2-Dec-20	4-Dec-20	BB	810	60	130.67%	13,50,00,000
Mrs. Bectors Food Specialities Limited IPO	15-Dec-20	17-Dec-20	BB	540.54	288	106.79%	1,87,68,750
Antony Waste Handling Cell Limited IPO	21-Dec-20	23-Dec-20	BB	300	315	29.29%	95,23,345

Table 3 IPO Issued during 2021

Issuer Company	Issue Open	Issue Close	Issue Type	Issue Size (Cr.)	Issue Price (Rs.)	Listing Day Gain/Loss	
Indian Railway Finance Corporation Limited IPO	18-Jan-21	20-Jan-21	BB	4,633.38	26	-4.42%	1,78,20,69,000
Indigo Paints Limited IPO	20-Jan-21	22-Jan-21	BB	1,176.00	1,490.00	109.31%	78,92,617
Home First Finance Company India Ltd. IPO	21-Jan-21	25-Jan-21	BB	1,153.72	518	1.81%	2,22,72,586
Stove Kraft Limited IPO	25-Jan-21	28-Jan-21	BB	412.63	385	15.83%	1,07,17,662

Table 4:Returns of IPO 2019

Issuer Company [2019]	Short term Returns	Long term Returns
Xelpmoc Design and Tech Limited IPO	14.72%	17.44%

Chalet Hotels Limited IPO	0.92%	24.94%
MSTC Limited IPO	-11.74%	-23.87%
Rail Vikas Nigam Limited IPO	20.82%	13.20%
Metropolis Healthcare Limited IPO	4.19%	52.40%
Polycab India Limited IPO	14.03%	47.90%
Neogen Chemicals Limited IPO	36.25%	85.67%
India MART Inter MESH Limited IPO	25.26%	96.87%
Affle (India) Limited IPO	14.86%	117.79%
Spandana Sphoorty Financial Ltd IPO	-0.22%	-19.68%
Sterling and Wilson Solar Ltd IPO	-22.09%	-90.10%
Vishwaraj Sugar Industries Ltd IPO	11.65%	74.13%
IRCTC Limited IPO	153.24%	200.19%
CSB Bank Limited IPO	14.85%	38.32%
Ujjivan Small Finance Bank Ltd IPO	46.15%	31.13%
Prince and Pipes and Fittings Ltd IPO	-1.20%	68.54%

Table 5:

SUMMARY				
Groups	Count	Sum	Average	Variance
Column 1	16	3.2169	0.2010	0.1544
Column 2	16	7.3487	0.4592	0.43178

Table 6:

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.5334	1	0.5334	1.8200	0.1874	4.1708
Within Groups	8.7934	30	0.2931			
Total	9.3269	31				

Table 7:Returns on IPO 2020

Issuer Company[2020]	Short Term Return	Long Term Return
SBI Cards and Payment Services Ltd IPO	-29.55%	60.93%
Rossari Biotech Ltd IPO	83.02%	108.56%
Happiest Minds Technologies Ltd IPO	110.98%	171.29%
Route Mobile Ltd IPO	104.12%	198.21%
Computer Age Management Services Ltd IPO	6.54%	44.67%
ChemconSpeciality Chemicals Limited IPO	39%	49.83%
Angel Broking Ltd IPO	6.58%	13.62%

Issuer Company[2020]	Short Term Return	Long Term Return
Mazagon Dock Shipbuilders Limited IPO	22.42%	46.62%
Likhitha Infrastructure Ltd IPO	29.53%	102.42%
UTI Asset Management Company Ltd IPO	-9.87%	8.14%
Equitas Small Finance Bank Ltd IPO	5.03%	62.07%
Gland Pharma Limited IPO	47.22%	65.32%
Burger King India Limited IPO	143.92%	140.00%
Mrs. Bectors Food Specialities Limited IPO	66.42%	62.70%
Antony Waste Handling Cell Limited IPO	44.60%	45.95%

Table 8 Summary

Groups	Count	Sum	Average	Variance
Column 1	15	6.6996	0.44664	0.2389
Column 2	15	11.8033	0.78688	0.30287

Table 9: Anova

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.8683	1	0.8683	3.2052	0.0842	4.1960
Within Groups	7.5850	28	0.2709			
Total	8.4533	29				

Table 10:

ISSUER COMPANY [2021]	Short term Returns	Long term Return
Indian Railway Finance Corporation Limited IPO	-4.09%	-2.87%
Indigo Paints Limited IPO	87.20%	108.48%
Home First Finance Company India Ltd. IPO	2.82%	0.82%
Stove Kraft Limited IPO	22.28%	13.71%

Table 11: Summary

Groups	Count	Sum	Average	Variance
Column 1	4	1.0821	0.270525	0.173252263
Column 2	4	1.2014	0.30035	0.278545963

Table 12: Anova

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.0018	1	0.00178	0.0078	0.93217	5.9874
Within Groups	1.3554	6	0.22590			
Total	1.3572	7				

Authors Profile

Dr. Aabha S Singhvi is from ROFEL MBA, she is ph. D in finance, Mba finance and NET qualified. She has 28 research papers to her credit and 10 presentations in national and international Conferences. She is head of IQAC cell and entrepreneurship cell. Also has experience of 14 years of teaching in pg. She has received the best paper award from Kamraj University in the International Conference on Talent Management. Also the best paper in 2nd International E- conference on Digital Learning Methodologies: The impact of Financial Digitalization on State Bank of India" of Parul University.	
Dr. Pankajray Patel has completed 23 years of teaching and academic administration experience at post graduate level in academic institutions and 5.5 years of work experience in industries. He graduated in Electrical Engineering from Sardar Vallabhbhai National Institute of Technology, Surat. He finished his MBA with Marketing Specialisation from Department of Business & Industrial Management, Veer Narmad South Gujarat University, Surat in 1997. At present he is serving as Professor & Director of Graduate School of Management Studies at Gujarat Technological University. Prior to joining GTU, he was working as In charge Director at GIDC Rajju Shroff ROFEL Institute of Management Studies, Vapi where he had joined in December 1999 as lecturer. His areas of interest are Marketing, Consumer Behavior and Research. He has taught different subjects in specialisation areas of Marketing Management and General Management at MBA programme. He has successfully guided 05 students for their Ph.D. He is also a guide at MBA programme of IGNOU.	
Yash Chetanbhai Doshi is student at GIDC Rajju Shroff Rofel Institute of Management Studies, Vapi, Gujarat.	