

Short Run Performance Analysis of Initial Public Offerings

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Abstract: *Initial public offering (IPO) sets a path for raising the capital by the public for the first time by issuing shares. Raising capital from the public for the very first time by a company is called as Initial public offering (IPO). This IPOs gives a path to the company to enter into the primary market, which sets a gateway to enter the secondary market. The investors' subscription in primary market, their positive response gives the company confidence to list in secondary market and gain market position. The study emphasizes on short-term returns of the IPO which are listed in NSE main board. For the study IPOs listing day, 7th, 14th, 21st and 28th day closing price data are taken and analysed. The paper aims to analyse the investors getting back for their investment in short-term only which is listed from January 2021 to June 2021, 6 months data is taken. The total companies listed during the period in NSE main board are 18 companies, all the companies are taken for the analysis. The study interprets that the listing day price impacts on the return in the coming days of listing. Closing price on listing day is less than the issue price the future day's price also be subject to the listing day. This study investigates the short-term analysis of initial public offerings (IPOs) listed in NSE and highlight the impact of listing date prices on subsequent returns. The results show that IPOs tend to provide investors with favourable short-term returns based on the closing price on the listing date. Conversely, IPOs that close above their issue price tend to continue to rise in the stock market, if investors with higher short-term returns. Overall, the study suggests that IPOs listed on the NSE Main Board have the potential to generate short-term profits, but paying close attention to the listing day price can have a significant impact on profitability. This understanding is essential for investors looking to capitalize on short-term profits and highlights the importance of strategic pricing of IPOs by issuing companies to ensure value creation for stakeholders.*

Keywords: Initial Public offerings (IPOs), Performance analysis, Short term.

1. Introduction

In the economy, capital is raised through an IPO (Initial Public Offering). The market is the most difficult thing for a company. A commercial company must be qualified the consent of the traders to successfully conduct an IPO in the primary market. There are many advantages to reaching an IPO. Securing the necessary capital for the destiny plan will increase the reputation of company. The company will have the pleasure of trading its shares on the stock market. Alternative. Through this, company can get additional beneficial exposure. From all stakeholders of company and market. Indian groups are actively using finance. Market boom through IPO issuance, attracting all potential investors to Register for their stocks. Even after listing several external factors such as Herbal risks and artificial events affect the overall effectiveness of IPO. More in the last 10 years Better IPO than ever before. The financial community has seen a rapid increase in number of companies opting for IPO to raise capital, reflecting the economics of the market and the interest of investors in capital. An IPO marks a significant moment for a private company; it is now time for the company to open up to public capital and list on the stock exchange, thus becoming a public company. The initial offering of this product allows the company to raise a large amount of money from the public, which can then be reinvested into fuelling development, expansion or construction. For many companies, an IPO is more than a financial strategy; it is a way to demonstrate entrepreneurship, confidence and access to more capital in the future. It allows companies to tap into a wider range of resources than private pipelines. A successful IPO can attract a variety of investors, from institutional investors to retail investors, each bringing different interests

and perspectives. For the broader economy, IPOs inject capital into new opportunities, new businesses, and innovations, and increase diversification. Investors are attracted to IPOs because of the potential for strong returns, especially in the short term, sometimes exceeding those of mass production. However, the excitement surrounding IPOs is often accompanied by significant uncertainty due to the lack of historical performance data on new entities.

2. Review of Literature

- 1) **Arshad Khan, Zeeshan, Ahmad, Alakkas and Farooqi (2021)** – The study examines the stock analysis of selected IPO in India, by evaluating the return of IPO in multiple prices issue and the analysis of IPO on zero day is compared for short and long run. The main aim of the paper is to assess the increase in rate and performance of IPOs on listing day. The research method used is descriptive research method. The total of 26 companies IPO listed in NSE during 2016 is taken for the analysis purpose. The statistical tool used is Wilcoxon Signed Rank Test using MS Excel and SPSS to analyse the comparison of short and long-term performance. The study concludes that the investors should sell the shares when it is overpriced on the listing day which minimises the losses. The investor can hold the stocks more than one year for better returns that are under-priced. The long-term returns are more promising than the short-term return on listing day.
- 2) **Arora and Singh (2020)** – The article highlights the performance of IPOs of SME at longer run in India. They are concentrating on the extended return from the IPOs and taking the data of price of SME IPOs from the listed

date of 3rd, 6th, 9th and 12th months returns. The data taken are SME IPOs listed from Feb 2012 to May 2018 which use the methodologies of event time like cumulative abnormal returns, buy return, hold return and wealth relatives. The details of the price were not available total data taken are 104 out of 375 SME IPOs. The statistical tool used is least square regression analysis. In the long term the IPOs returns yielded are good is the conclusion given by the researcher.

- 3) **Sharma and Wazal (2020)** – The article states the comparison between SME IPOs and main board IPOs listed in stock exchange. The main comparison is the price discovery of the IPOs. The study comprises 1110 IPOs as sample, which comprises 526 SME IPOs and 584 Main Board IPOs list in NSE, BSE and other SME platforms from the year 2000 – 2019. The overall outcome of the analysis is SME IPOs are more efficient in terms of under-pricing. The SME IPOs get more profitability on the listing day, but the level of demand is less compared to main board IPOs. The study provides the information of SME IPOs and brings awareness about it among the investing community.
- 4) **Malhotra and Premkumar (2017)** - The study comprise few employed factors that influence the stock price during the IPOs issue. The goal of the article is to evaluate the long performance of IPOs, by the issue size of shares at the time of IPO issue. A total of 251 IPOs were listed in NSE during the period 2004 – 2008 out of which 219 samples are taken for the study. The major findings are the age of the company will not affect the long run performance of IPOs in India. The time lag will not affect the long run performance negatively. The limitations of the research are the sample is experimental only for three years from the date of listing to analyse the performance.
- 5) **Bhuiyan, Salat and Rahman (2007)** - The study examines the analysis of IPOs on under-pricing, market efficiency, market return of IPO. The focus of the study is to evaluate operational performance of some selected companies after IPO. The quantitative research is conducted by the researcher by collecting data through primary and secondary. The paper covers the performance of companies which is evaluated based on 5 criteria i.e., Fund utilisation, IPO Expenses, Annual General meeting on time, penalisation by SEC, Payment of dividend. The major findings of the paper are the

criteria covered are not fulfilled by the companies and the companies failed to keep up the words promised during the issue time. The limitations are, IPO listed from 1999-2000 are taken for study, the registered IPOs are 18 out of which only 8 companies IPOs are taken for study and the criteria's considered for study can be included with many other components like issue size, issue price, etc.

3. Methodology:

1) Research Gap:

The research gap is, there are many research conducted on the analysis of the IPOs, the return on the IPOs in the long run, but there is no much study conducted based on the main board NSE IPOs in the short run.

2) Statement of problem:

IPOs give the scope for the companies to enter the market to raise the capital. The problem identified is the IPOs gain and loss in the short term after listing day.

3) Research objectives:

- a) To know about the IPOs listed in NSE
- b) To analyse the IPOs, gain or loss in short term
- c) To analyse the returns on IPOs in the short run.
 - Sample Size: 18 companies IPOs, which are listed on NSE main board.
 - Data collection method: Secondary data – NSE website.

4) Limitations of the study:

- a) The study is restricted to short term performance only.
- b) The NSE main board listed IPOs are taken for the study.
- c) Only 6 months data i.e, January 2021 – June 2021 listed IPOs are only considered for study.

4. Result and Discussion

The data is collected from a secondary source i.e., from the NSE website. The 18 companies IPOs. The listing, 7th, 14th, 21st and 28th day closing price is taken and calculated the gain or loss percentage using the following formula:

$$\text{Gain \%} = \frac{\text{Closing price} - \text{Issue price}}{\text{Issue Price}} \times 100$$

Table 1: The table representing the IPOs listed and the Gain percentage

S. No	Company Name NSE	Issue Price	Listing day gain %	7th day gain%	14th day gain%	21st day gain%	28th day gain%
1	Indigo Paints Limited	1490	109.31	78.95	72.82	77.11	67.76
2	Home First Finance Company India Limited	518	1.81	5.89	3.97	4.09	-3.05
3	Stove Kraft Limited	385	15.83	34.03	23.73	30.70	16.04
4	RailTel Corporation of India Limited	94	29.15	63.94	36.65	33.99	29.79
5	Heranba Industries Limited	627	29.55	11.59	0.33	5.53	-0.22
6	MTAR Technologies Limited	575	88.22	83.00	80.59	67.17	64.57
7	Easy Trip Planners Limited	187	11.39	12.70	7.62	-7.81	-1.52
8	Laxmi Organic Industries Limited	130	26.62	45.81	46.92	61.46	68.92
9	Craftsman Automation Limited	1490	-3.83	-2.13	-10.16	-8.82	-0.29
10	Kalyan Jewellers India Limited	87	-13.45	-19.66	-23.10	-29.66	-29.31
11	Nazara Technologies Limited	1101	43.22	48.83	43.36	58.07	56.63
12	Suryoday Small Finance Bank Limited	305	-9.44	-13.16	-18.05	-18.07	-22.98
13	Macrotech Developers Limited	486	-4.70	26.64	29.88	30.70	30.35
14	Sona BLW Precision Forgings Limited	291	24.69	29.64	38.32	45.17	50.43

15	Shyam Metalics and Energy Limited	306	22.83	21.44	36.68	41.08	39.23
16	Dodla Dairy Limited	428	42.31	33.70	41.38	45.14	40.78
17	Krishna Institute of Medical Sciences Limited	825	20.72	29.21	57.16	47.90	49.07
18	India Pesticides Limited	296	15.93	15.41	17.25	12.64	10.79

The above table states the gain percentage of the IPOs listed in NSE main board where out of 18 companies 3 companies closing price is lesser than the issue price on all the days so they have a loss percentage, the remaining 15 companies have a closing price more than the issue price which has a gain percentage, but few company on few days of closing price have lesser price than issue price.

From the above table it is interpreted that 3 companies at a shorter run are having a loss as price of IPO has fallen, whereas the other 15 companies' price has gone up, more than 15% of issue price. Indigo Paints Limited on the listing day it has 109.31% of gain. "Kalyan Jewellers India Limited" has incurred a loss percentage of (-29.66%) which is the least price among the data.

5. Discussion

- 11 companies listed IPOs have got positive returns.
- 7 companies listed IPOs have got negative returns.
- On the listing day the 4 companies have a negative return, whereas 14 companies have positive returns.
- On the 7th day of listing the 3 companies have a negative return, whereas 15 companies have positive returns.
- On the 14th day of listing the 3 companies have a negative return, whereas 15 companies have positive returns.
- On the 21st day of listing the 4 companies having negative return, whereas 14 companies have positive returns.
- On the 28th day of listing the 6 companies is showing negative returns whereas 12 companies have positive returns.
- "Indigo Paints limited" has the highest gain of 109.31 % on the day of listing and later there is decrease in gain percentage but it has gained, on the 28th day it has 67.76% gain.
- "MTAR Technologies Limited" has the 2nd highest gain of 88.22% on the listing day, 7th day 83% gain, 14th day 80.59%, 21st day 67.17% and on 28th day 64.57% returns.
- "Kalyan Jewellers India Limited" closing price is very less than the issue price on all days on 21st day it has a loss percentage of (-29.66%).
- "Suryoday Small Finance Bank Limited" closing price is also very less compared to issue price.

6. Conclusions

IPOs get good return in short run if the companies focus on their pricing on the day of listing is analysed. If a company listing day price is less relating to the issue price it continues to be decreasing in the further days. The investors gain good return in short term, provided they need to check on the day of listing price and then they should take the decision of holding the IPOs further. The IPOs listed in the mainboard of NSE in the short run gain a good return. The performance in short term gains yield a good return for the investors from IPOs. The companies having a closing price more than the

issue price on listing day gain more in the further days of listing in the secondary market.

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