



STOCK PERFORMANCE OF SELECT IPOs IN THE INDIAN STOCK MARKET

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Abstract:

Initial Public Offerings are the basic function of stock markets in any country. Sometimes the initial public offerings may give different results on stock prices. This research paper concentrates on IPOs, the company's share price changes, and their relation with India's stock market. The IPOs data from January 2021 to December 2021 was used for analysis, and the data of the Bombay Stock Exchange from January 2021 to September 2022 was also considered for the analysis of Stock volatility. The ADF test, correlation, and Initial returns are used to analyze the changes in the IPOs with the stock market. The analysis revealed that Indian Railway Finance Corporation Limited, Kalyan Jewellers India Ltd has negative changes, and CMS Info Systems Ltd, Zomato Ltd, Go Fashion India Limited, and other companies have positive changes. A significant positive correlation was observed between CMS Info Systems Ltd, Star Health and Allied Insurance Company Ltd, and Aditya Birla Sun Life AMC Ltd, and stock market indices and the other companies in the study have a negative correlation.

Keywords: Initial Public Offerings, ADF Test, Correlation, Stock Prices.

Introduction:

A robust financial system enables the lenders and suppliers of funds in a place called financial markets. A developed primary market is vital for resource mobilization bridging the gap between investors seeking investment opportunities and issuers seeking to mobilize resources to finance their businesses (Tyagi, 2016-17). The capital markets nurture the economic growth by channelization of savings for the purpose of capital formation and increases productivity of judged on the case by case basis but it is found that investors' appetite has increased due to their exceptional performance in recent past. According to Ernst and Young Global IPO Market Study Report: 2017 Review and 2018 Outlook, the year 2017 has closed with more than IPO listings than any other year since 2007.

The global scenario 2017 has registered 1,624 IPOs with USD 188.8 billion raised globally—a year-on-year growth of 49% by the number of deals and 40% by capital raised. Although

these figures do not meet the level of 2007 (1,974 IPOs with USD 338.4 billion of funds raised). The report says it would have been stronger at the global level but due to weaker than expected activity levels at Asia Pacific regions. Amongst these US, India, Australia, Japan and UK exchanges were the significant performers whereas Greater China contributed to 36% of globally funds raised. This shows an upward trajectory in the growth of global economy since the end of last financial crises. At the outset Indian IPO markets too have shown heightened activities and have varied from year on year characterised by overwhelming response to a majority of the public issues from foreign portfolio investors (FPIs), other institutional and the retail investors. In the last three years India IPO market gained revival momentum where it is evident that during 2014-15 Rs.19,202 crore of amount was mobilised through 70 companies floating IPO and 18 rights issues as against 90 companies which raised 55,652 crore in 2013-14 through 75 IPO and 15 rights issues. In the year 2014-15 88 companies floated IPOs but the amount mobilised was low though the number of companies floated in 2013-14 was on an average were the same. Whereas during 2016-17, 62,067 crores was mobilized through 122 public and 12 rights issues as against ` 57,866 crore raised in 2015- 16 through 94 public and 13 rights issues. There was a quantum leap in the number of IPO and the amount mobilised. This indicates a substantial rise in the capital market as a mode of finance amongst the corporates, equally providing enormous opportunities for investors to invest in a cross-section of firms representing the growth economy. The amount raised through IPOs in 2016-17 nearly doubled by 96.4 per cent to 29,104crores as compared to 14,815 crore during 2015-16. investment (Sanjay, 2013). The major source of capital is mobilised through the floatation of Initial Public Offerings (IPO). An IPO symbolizes a crucial shift in the company's development-a transition that takes the privately held firm to the public dome (Certo, 2003). An IPO passes a strong positive signal to the world that the firm is about to enter into a period of growth by evaluating the investment options available and successfully employing the new capital raised. These signals result in an increase in the price of the stock on the day of IPO announcement that are considered as excess positive abnormal returns (Rebecca Abraham, 2016). In recent past IPO has become a vital source of funds to the corporates that accelerates their growth and considered as one of the investment tool since the first day of listing of IPO offers profuse profits to the company. The IPO has been one of the lucrative options that investors have for investments. IPOs are often seen as a predictable opportunity to earn abnormal profits on the day of listing (Poornima, 2016). Each IPO is judged on the case by case basis but it is found that investors' appetite has increased due to their exceptional performance in recent past.

Literature Review:

Moonchul Kim and Jay R. Ritter(1999) have found that comparable firms' price-earnings (P/E), market-to-book, and price-to-sales multiples have only modest predictive ability without further adjustments. Scott B Smart, and Chad J Zutter(2003), have proven that dual-class companies have slightly higher post-IPO institutional ownership than single-class firms and experience fewer control events. Amiyatosh K. Purnanandam, and Bhaskaran Swaminathan(2004), have proven that IPO investors are deceived by optimistic growth forecasts and pay insufficient attention to profitability in valuing IPOs. Daniel J. Bradley, Bradford D. Jordan, and Jay R. Ritter(2006) examined over 7400 analyst recommendations after going Public for IPOs from 1999 to 2000.

Sumit Agarwal, and Chunlin Liu (2008), found that IPOs with high investor demand realize significant positive initial returns but negative long-run excess returns, while IPOs with low investor demand realize negative initial returns. However, positive long-run excess returns. Shikha Sehgal, and Balwinder Singh (2008), Indian IPOs do not tend to underperform in the longrun. Vijaya B. Marisetty, and Marti G. Subrahmanyam(2010), have proven that the long-run performance of IPOs, in general, is negative. Mario Levis (2011) examined the aftermarket performance of private equity-backed initial public offerings (IPOs) and compared it to equivalent samples of venture capital-backed and other nonsponsored issues on the London Stock Exchange during 1992-2005. Jim Hsieh, Evgeny Lyandres, and Alexei Zhdanov(2011) calibrated the model using data on IPOs and mergers and acquisitions (M&As). The resulting comparative statics generate several novel qualitative and quantitative predictions, complementing other theories linking IPOs and M&As.

Peter Roosenboom (2012) has investigated how underwriters set the IPO firm's fair value, an ex-ante estimate of the market value, and how these underwriters subsequently use their fair value estimate as a basis for IPO pricing. Orhun Guldiken (2017) has proven that uncertainty in the tone of media coverage about an IPO firm adversely influences its stock price. Luisa Anderloni, and Alessandra Tanda(2017), have proven that green companies have a lower underpricing, which nevertheless disappears after a few days of trading and when controlling for underpricing determinants. H.N. Archana, and D. Srilashmi (2019), indicated that the offer price had a positive relationship with the initial listing performance of IPOs, whereas the issue size, market return, and listing delay showed a negative relationship towards the performance of IPOs. Jiangjing Que, and Xueyong Zhang (2019), showed that the effect of pre-IPO growth on post-IPO long-run performance is positive but is attenuated by venture capital in a matched sample. Linda Novita, Dewidicky Jhoansyah, and

KokomKomariah(2020) have shown an increase in financial performance after the IPO with solvency ratios and a decrease in financial performance after the IPO with liquidity. Allen Michel, Jacob Oded, and Israel Shaked (2021) indicate that institutional ownership is a valid indicator of the firm's operating performance in its initial years as a public company. Lidya Agustina, and Anastasia Clara (2021), have proven that IPO behavior tends to be underpriced.

Objectives of the study:

1. To examine the select IPOs performance in the Bombay Stock Exchange,
2. To analyze the relationship between the stock market Index and select IPOs.

Hypothesis

H₀: There is no significant change in the stock performance of select IPOs in BSE, India.

H₁: There is a significant change in the stock performance of select IPOs in BSE, India.

Data Collection Sources: The secondary data has been collected from the stock market, i.e., the Bombay stock exchange (BSE), the internet, survey reports, websites, research articles, books, and various journals.

Sample Selection & Size: This study has taken shares data of the select IPO companies listed in BSE traded during 2021-2022.

Statistical Tools: In order to analyze the performance of shares during IPOs were traded in the stock market;their relation with the stock market index has been used ADF test, MS-Excel, Inferential Statistics, Correlation, and SPSS.

The list of companies considered for the analysis and IPO date:

S.No	Name of the company	Date of IPO
1	Indian Railway Finance Corporation Limited	18.Jan.2021 to 20.Jan.2021
2	Indigo Paints Limited	20.Jan.2021 to 22.Jan.2021
3	Kalyan Jewellers India Limited	16.Mar.2021 to 18.Mar.2021
4	Dodla Dairy Limited	16.Jun.2021 to 18.Jun.2021
5	Zomato Limited	14.Jul.2021 to 16.Jul.2021
6	Aditya Birla Sun Life AMC Ltd	29.Sep.2021 to 01.Oct.2021
7	Go Fashion India Limited	17.Nov.2021 to 22.Nov.2021
8	Star Health and Allied Insurance Company Ltd	30.Nov.2021 to 02.Dec.2021
9	Medplus Health Services Limited	13.Dec.2021 to 15.Dec.2021
10	CMS Info Systems Limited	21.Dec.2021 to 23.Dec.2021

Results and Discussions:

Table Showing Stationary Test Results of Indices and select IPOs in BSE

Name of the company	T-Value	P-Value
CMS Info Systems Limited	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-10.74876	0.0000
Medplus Health Services Limited	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-12.76335	0.0000
Zomato Limited	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-17.27999	0.0000
Kalyan Jewellers India Limited	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-17.07796	0.0000
Indigo Paints Limited	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-19.48225	0.0000
Indian Railway Finance Corporation Limited	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-20.83994	0.0000
Dodla Dairy Limited	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-18.87416	0.0000
Aditya Birla Sun Life AMC Ltd	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-14.88417	0.0000
Go Fashion (India) Limited	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-13.12720	0.0000
Star Health and Allied Insurance Company Ltd	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-11.67958	0.0000
BSE Indices	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-19.3053	0.0000

The above table replicates stationary results for select IPO companies and BSE indexes in 2021-2022, all in stationary form. All the select IPOs companies' P-Values are showing 0.0000, and the t-statistics values for all IPO companies are negative, which means the data used in the study was significant. That represents that the time factor does not affect the results of the data considered in the study period.

Performance of IPOs on Listing Day

The research has taken the Issue price, Opening price, and closing price to assess the performance of IPOs on listing day. The performance can be seen as overpriced and underpriced based on comparing the closing price and issue price on listing day. Khurshid et al. (2008), Marisetty & Subrahmanyam (2010) and Khan, M.A., Zeeshan, K., Ahmad, M.F., Alakkas, A.A., & Farooqi, M.R. (2021) have calculated the under-pricing of IPOs from the issue price and the closing price of the listing day;

$$IR = \frac{P_c - P_o}{P_i}$$

Where **IR**=Initial Return on IPO

P_c = Closing price of IPO, P_o = Opening price of IPO, and P_i = Issue Price of IPO

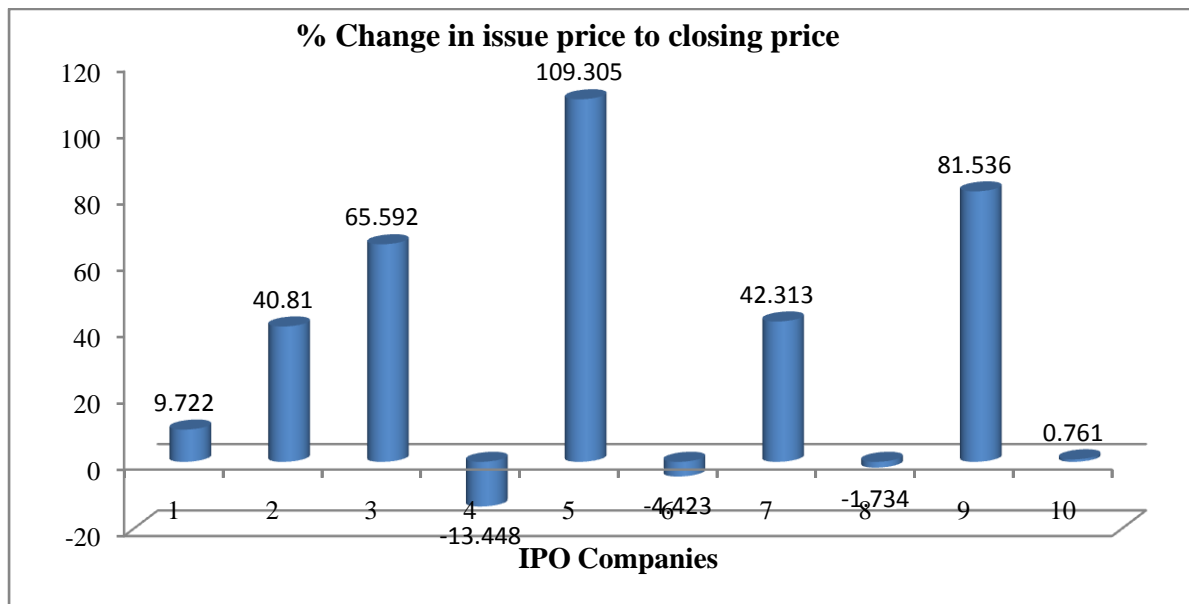
➤ Percentage Increase and decrease in the actual issue price and the closing price were calculated by using the following formula:

$$\% \text{Increase and Decrease in share price} = \frac{\text{Closing price} - \text{Issue price}}{\text{Issue price}} * 100$$

The performance of IPOs on Listing Day

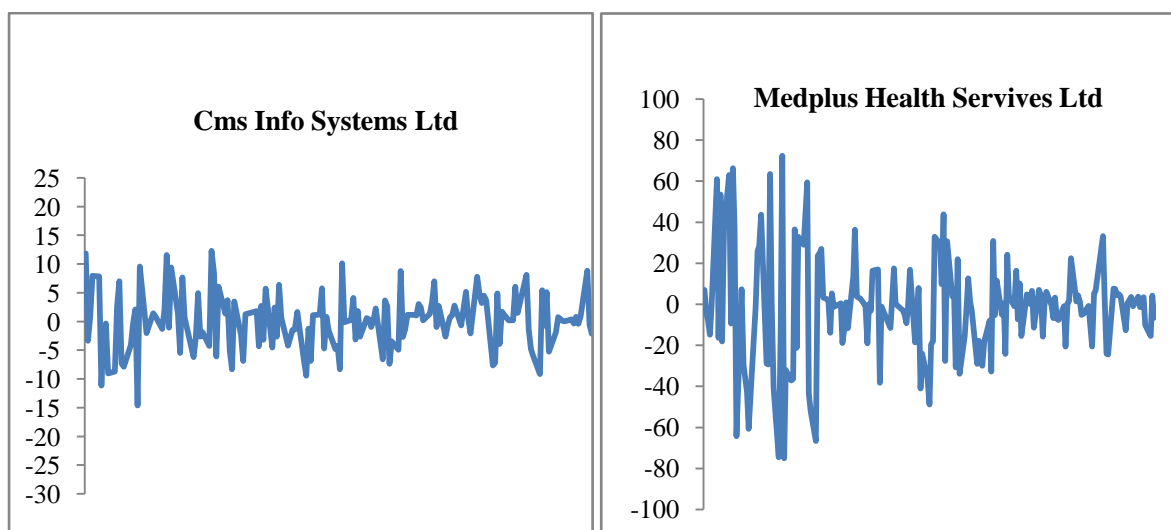
Listing Day performance of IPO					
Issuer Name	Issue Price	Increase/Decrease	Closing Price	Initial Return	Performance
CMS Info Systems Ltd	216	9.722	237	0.097	Under Priced
Medplus Health Services Ltd	796	40.810	1120.85	0.132	Under Priced
Zomato Ltd	76	65.592	125.85	0.142	Under Priced
Kalyan Jewellers India Ltd	87	-13.448	75.3	0.016	Overpriced
Indigo paints Ltd	1490	109.305	3118.65	0.343	Overpriced
Indian Railway Finance Corporation Limited	26	-4.423	24.85	-0.005	Overpriced
Dodla Dairy Ltd	428	42.313	609.1	0.189	Under Priced
Aditya Birla Sun Life AMC Ltd	712	-1.734	699.65	-0.017	Overpriced
Go Fashion India Limited	690	81.536	1252.6	-0.091	Under Priced
Star Health and Allied Insurance Company Ltd	900	0.761	906.85	0.064	Under Priced

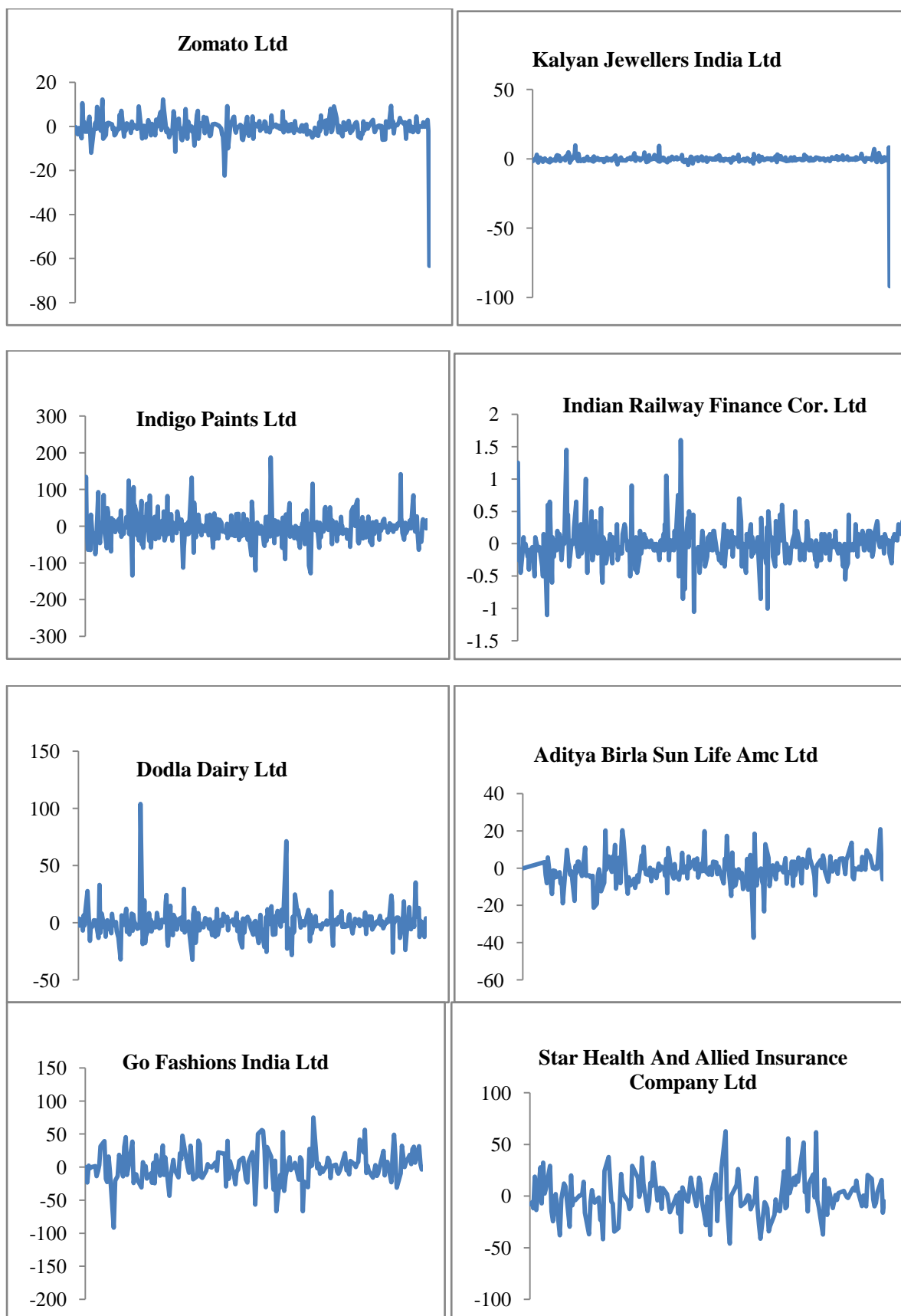
The result obtained from the table shows the performance of shares on listing day. Four companies overpriced their shares more than the closing price, and six companies underpriced their share prices more than the market price. The above table revealed the percentage change in the offer price to the closing price.



Graphical representation of percentage change in issue price to the closing price on listing day. The highest share rise can be seen in indigo paints ltd, i.e., 109.305, and the low increase in star health and allied insurance company ltd, i.e., 0.761, and the higher decrease was in Kalyan Jewellers India Ltd, and the lowest decrease, i.e., -1.734 in Aditya Birla Sun Life AMC Ltd. From 10 IPO companies, seven companies share price has a change in positive and three companies share price changed in negative.

The performance of the select IPOs in the stock market for the given period.





The graphs represent the changes made in the study from the IPOs date in the stock exchange.

Hypothesis

H₀: There is no significant change in the stock performance of select IPOs in BSE, India.

H₁: There is a significant change in the stock performance of select IPOs in BSE, India.

From the above hypothesis analysis has shown a significant change in the stock performance of select IPOs in BSE, India. Hence, the alternative hypothesis is accepted statistically.

Conclusion

Initial Public Offering is a strategic fit for companies to procure capital resources for acquiring assets by issuing shares in the primary market to the public. This research presents comprehensive literature that mainly focuses on studies on the stock performance of select IPOs in BSE, India. This research aimed to identify the shares performance of selected IPOs to analyze the trading fluctuations during the study period and stock market volatility using systematic review methods on various indices of BSE in India.

The present study examined the daily volatility of share prices in BSE for the period from IPO traded in January 2021 to 14 September 2022, using the value of changes in share price represented in line graphs and the correlation between shares and the BSE Index. A hypothesis test was employed in this study, which rejects the Null hypothesis, i.e., there were no significant changes in the stock performance in BSE.

Based on the analysis, it can be concluded that there are multiple variables for fluctuations of Shares important for improving stock performance and SENSEX. Future exploration into IPOs could be useful for finding further facts related to investments in fresh issues.

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