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A STUDY ON THE PERFORMANCE OF INITIAL PUBLIC OFFERING OF COMPANIES LISTED IN BOMBAY STOCK EXCHANGE, INDIA

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ABSTRACT

Globally, initial public offerings are becoming more and more significant as a source of capital for businesses looking to expand quickly by utilising the money raised to adopt creative tactics. They are also regarded as a valuable investment tool because they provide substantial returns on the day of listing. In this study, the firms' short-term performance is examined to comprehend the anomaly of anomalous returns, and their long-term performance is examined to examine the IPO's long-term success. The period of study is from Jan. 2022to Dec. 2023. The sample for the study includes 10 companies listed in Bombay Stock Exchange of India pertaining to the study period. The study's findings will help investors make better decisions by shedding light on the success of initial public offerings (IPOs), which are primarily regarded as speculative instruments. The results will also assist in determining whether an initial public offering (IPO) is a long-term investment vehicle or a chance for speculation to generate enormous gains.

Keywords: *Short-term Returns, Long-Term Returns, Initial Public Offering.*

Introduction

Any system that permits money transfers between lenders, investors, and borrowers is considered a financial system. It increases the amount of resources flowing into financial assets, which are more productive than physical assets, and encourages saving and investment in the economy. Financial securities, commodities, and other fungible goods of value are traded in a financial market at prices that reflect supply and demand and with minimal transaction costs. As a component of the financial system, the financial market has a big role to play in this situation. It offers the monetary resources required for the long-term, sustainable growth of the economy's various sectors. Financial market is divided into money market and capital market.

The primary market helps the business sector arrange finances through right issues, private placements, public offerings, and offers for sale. It also facilitates securities for investors. Initial public offerings (IPOs) and further public offerings (FPOs) are two more categories for public issues. A company's first equity offering to the general public is known as an initial public offering (IPO). IPOs are a significant source of funding for businesses.

When a business moves from being a start-up or private limited company to a public limited company, initial public offerings (IPOs) represent a significant turning point in its development. Both pre-IPO investors and company promoters stand to gain greatly from a successful IPO.

In the past, most initial public offerings (IPOs) were underpriced in an attempt to generate abnormal gains upon listing and draw in additional investors to register for their equities. In efficient markets, empirical research has confirmed the aforementioned.

The phenomenon of under-pricing and abnormal returns has been the subject of numerous research studies, yet they fall short of explaining the aforementioned. Therefore, this study will examine the initial public offerings' short- and long-term performance in order to assist investors in making well-informed decisions.

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Need for the Study

An initial public offering (IPO) is sometimes viewed as a speculative chance to make extraordinary profits on the day of listing. Businesses that choose to go public are subject to additional market pressure, which could lead them to prioritise short-term outcomes over long-term expansion. As investors continuously seek out growing profits, the management's actions are also scrutinised more closely. This could push management to engage in dubious activities to increase profits.

Companies must weigh the possible benefits and drawbacks of going public before making a decision, and they must set pricing that benefit both the company and investors. In order to maximise returns, this study assists the investor in selecting the best investment plan.

Objectives of the Study

The key objective of the research was to evaluate the performance of IPOs in India. The current study has been conduct with the following objectives:

- To evaluate the performance of Indian IPOs for short term period.
- To evaluate the long term performance of Indian IPOs include and exclude initial returns.
- To analyse whether the returns are more in short term or long term for better conclusion

Literature Review

Purnanandam, Amiyatosh K., and Bhaskaran Swaminathan (2004), examineda sample of 2000 and more IPOs from 1980 to1997 and found that the IPOs are overvalued at 50percent the offer price relative to the market. Furtherthe analysis revealed that a temporary higher salesgrowth rates are observed in overvalued IPOs andgradually over the next five years these IPOs exhibitlower profit margins and lower return on assets.

Gounopoulos and Dimitrios (2003), analysed the performance of theGreek IPOs and revealed that on an average they were under-priced by 63.92%. Industrial firmswere under priced at 67.14%, finance firmsat 54.55% and other firms at 56.19%.

Heerden and Alagidede, studied a sampleof 138 IPOs of South Africa for the period of 5years ranging from 2006 to 2010. It was found thatthere was significant short- run under-pricing and insectorial analysis, financial sector had the largest IPOunder-pricing.

Baluja, Garima, and Balwinder Singh (2016), studied survival of IPOsand found that growth rate and the environments ofthe respective industry sector of the IPOs stronglysupport its survivability. Taking a sample of 3374IPOs from BSE, 2501 IPOs are categorized as“survivors”. The findings support that issue withsignificant under-pricing decrease the likelihood oftheir survival in the aftermarket.

Hawaldar, IqbalThonse, et al. (2018), examined the performance of464 Indian IPOs for 15 years , i.e., from 2001 through2015. Performance of book built IPOs and fixed priceIPOs were studied using event methodology. Theresults reveal that IPOs are under-priced by lessermagnitude in case of book built as compared to fixedprice IPOs.

Research Methodology

The short term returns are calculated for the listing day using the traditional method of calculating returns , i.e. The difference between the closing price on the first day of trading and offer price and divided by the offer price. The result figure was multiple by 100 to set the figure in percentage.

- **Calculated Market adjusted excess returns (**$MAERs) = \frac{p1-p0}{p0} - \frac{m1-m0}{m0}\ X\ 100$
- **Annualizing factor:**

Annualizing factor = $\frac{365}{\text{After market trading lead time}}$

- **Financial technique used to calculate long term performance (include and exclude initial returns) of IPOs:**

$$Rit = (\frac{Pit}{Pio} - 1)\ X\ 100$$

$$Rmt = (\frac{Nmt}{Nmo} - 1)\ X\ 100$$

$$MAERit = Rit - Rmt$$

Data and Sample

Data has been gathered from CAPITAL LINE, CMIE PROWESS, and BSE. The majority of the data used in this investigation was secondary. The sample of ten firms whose initial public offerings (IPOs) were listed on the Bombay Stock Exchange (BSE) and whose in-formations have continuously been accessible are the subject of the secondary data. The following criteria were used to determine the study's sample.

- Only businesses that are currently trading on the Bombay Stock Exchange (BSE) in 2022 and 2023 were included in the population size. Only IPOs of 10 companies came under this category out of the 123 companies that made up the entire universe.
- Since the Bombay Stock Exchange of India is the oldest stock exchange and the majority of initial public offerings (IPOs) were listed there, the BSE-Sensex was chosen as the study's market index.

The price at which a new asset will be issued to the public before it trades on the secondary market is known as the issue size of the companies. All sectors' IPO issuers were included in the data selection process, and the data was subsequently filtered as follows: Since the initial public offering was the only offer type chosen, all subsequent equity offers were not included. Furthermore, the Priced status—which comprises offerings that have been concluded and acquired by investors—was the only offer status chosen. The remaining offer statuses, including withdrawn, postponed, and in registration, were not included. Following the completion of the filtrations for the years 2022 and 2023, a sample consisting of ten companies was generated.

Sample Size

The IPOs issue in the year 2022 and 2023 as per given in BSE report.The following table shows the sample of companies with its issue size:

S. No	Year	Name of the Company	IPO Issue Size (Shares)	Face Value of Equity Shares
1	2023	Indian Renewable Energy Development Agency Limited	46,90,46,031	10
2	2022	Paradeep Phosphates Limited	37,59,43,390	10
3	2022	Life Insurance Corporation Of India	16,20,78,067	10
4	2023	JSW Infrastructure Limited	13,62,83,186	2
5	2023	SBFC Finance Limited	13,35,12,817	10
6	2022	AdaniWilmar Limited	12,25,46,150	1
7	2023	Utkarsh Small Finance Bank Limited	12,05,43,477	10
8	2022	Ruchi Soya Industries Ltd	6,99,08,699	2
9	2022	Inox Green Energy Services Ltd	6,67,21,310	10
10	2022	Delhivery Limited	6,25,41,023	1

Findings and Discussions

Listing Day Returns Calculation

Sr. No.	Name of the Company	Average (%)			
		Raw Returns	MAER	Annualised Raw Return	Annualised MAER
1	Indian Renewable Energy Development Agency Limited	87.47	86.02	3192.66	3139.67
2	Paradeep Phosphates Limited	4.64	3.61	153.96	119.73
3	Life Insurance Corporation Of India	-7.75	-5.26	-202.05	-137.23
4	JSW Infrastructure Limited	32.18	32.96	1305.08	1336.75
5	SBFC Finance Limited	61.77	61.31	1610.43	1598.55
6	AdaniWilmar Limited	15.30	14.38	507.68	477.17
7	Utkarsh Small Finance Bank Limited	91.76	89.82	3349.24	3278.61
8	Ruchi Soya Industries Ltd	42.28	39.17	964.51	893.46
9	Inox Green Energy Services Ltd	-9.08	-8.62	-254.94	-241.95
10	Delhivery Limited	10.32	10.39	269.06	270.78
	Mean	**32.89**	**32.38**	**1089.56**	**1073.55**
	Minimum	**-9.08**	**-8.62**	**-254.94**	**-241.95**
	Maximum	**91.76**	**89.82**	**3349.24**	**3278.61**

As can be seen from the above data, the firms' average raw returns on the day of listing were 32.89, which was greater than the market-adjusted excess return of 32.38, and their annualised raw returns were 1089.56, which was higher than the market-adjusted excess return of 1073.55. On the day of IPO, Inox Green Energy Services Ltd. provided the lowest return at -9.08, while Utkarsh Small Finance Bank Limited earned the best return at 91.76.

An overview of IPO under-pricing by sector is given in the following table. With a mean percentage as high as 15%, the Renewable Energy sector had the greatest average degree of under-pricing among the enterprises. The Financial Services/NBFC industry has the next-highest percentage of under-pricing (12%). The insurance and banking/financial services sectors, which comprised one company and had an average level of under-pricing of 5%, had the lowest amount of under-pricing throughout this time frame. Naturally, a firm listed in the Renewable Energy sector had the highest overall under-pricing rate with 16% under-pricing.

Sector Wise Growth Rate

Sector	Companies	Avg. Growth Rate (%)	Maximum (%)	Minimum (%)
Renewable Energy	2	15	16	14
Fertilizers and Agrochemicals	1	6	6	6
Insurance	1	5	5	5
Infrastructure/Logistics	1	11	11	11
Financial Services/NBFC	1	12	12	12
Food Processing/Agriculture	2	7	7	7
Banking/Financial Services	1	5	5	5
Logistics and Supply Chain	1	8	8	8
Grand Total	**10**	**8.625**	**14**	**5**

Primary Market Returns and Secondary Market Returns of The Selected Companies

Sr. No.	Company Name	Primary Market Returns	Primary & Secondary Market Returns	Secondary Market Returns
1	Indian Renewable Energy Development Agency Limited	87.47	127.52	40.05
2	Paradeep Phosphates Limited	04.64	13.24	8.6
3	Life Insurance Corporation Of India	-07.75	-12.22	-4.47
4	JSW Infrastructure Limited	32.18	58.41	26.23
5	SBFC Finance Limited	61.77	92.36	30.59
6	AdaniWilmar Limited	15.30	34.74	19.44
7	Utkarsh Small Finance Bank Limited	91.76	107.65	15.89
8	Ruchi Soya Industries Ltd	42.28	78.12	35.84
9	Inox Green Energy Services Ltd	-09.08	-15.37	-6.29
10	Delhivery Limited	10.32	13.79	3.47
	Mean	**32.89**	**49.82**	**16.94**

The table above indicates if the IPO is a long-term tool or just a speculative opportunity. According to the aforementioned findings, IPOs that are purchased in the primary market and held in the secondary market yield the highest returns. IPO equities purchased in the secondary market and held in the secondary market yield an average return of 16.94, whereas stocks purchased in the primary market and sold in the same market yield an average return of 32.89. Therefore, it is determined that in order to maximise profit, an IPO should be held for a lengthy time.

Conclusion

Analysing IPO performance in primary and secondary markets was the goal of this study. Both short-term and long-term performance is analysed using investment tools such as Market Adjusted Excess Returns and Raw Returns. Investors should examine the IPO stock trend in order to make well-informed choices.

The findings indicate that while just one firm provides higher returns in the primary market and one company provides higher returns in the secondary market, seven companies offered higher returns in the primary market and sold in the secondary market.

Since it may take a company more than a year to improve its financials, the research period for long-term performance is also short, as is the sample size employed in this study. Due to time constraints, the study only employed the Market Adjusted Excess Returns approach to assess the IPO's performance; alternative tools, such as Wealth Relatives and Buy and Hold Abnormal Returns, might be used to analyse IPOs' actual performance. To comprehend the overall performance of IPO stocks in India, companies listed on the National Stock Exchange can also be studied. For a more thorough understanding of the precise cause of the anomaly, factors influencing under-pricing that leads to abnormal profits can also be investigated.

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