

SMART

Journal of Business Management Studies

(A Professional, Refereed, International and Indexed Journal)

Vol-19 Number-2

July - December 2023

Rs. 500

ISSN 0973-1598 (Print)

ISSN 2321-2012 (Online)

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Founder - Publisher and Chief Editor



**SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST
(SMART)**

TIRUCHIRAPPALLI (INDIA)

www.smartjournalbms.org

AN ANALYSIS ON SHORT RUN PERFORMANCE OF IPOs ISSUED DURING 2020 -22

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Abstract

Equity financing is considered a good source of financing since it places no additional financial burden on the company. This study focuses on the growth and achievement of Initial Public Offerings, made by the companies, from April 1st 2020 to March 31st 2022. For this purpose, basic returns and market adjusted returns were calculated for three periods, namely, on the day of listing, 30 days after listing and 90 days after listing. These results were further analysed, using statistical tools like paired t test and ANOVA. It was concluded from the study that under-pricing was very high on the listing day but this trend was reversed later and the gain started declining as the time passed and it subsequently led to the over pricing of the shares.

Keywords: *Equity Financing, Initial Public Offerings, Market Adjusted Returns, Raw Returns*

JEL Code : *G01, G11, G12, G18*

Paper Received : *21.11.2022*

Revised : *12.05.2023*

Accepted : *02.06.2023*

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1. Introduction

Business firms have to raise short term and long-term funds, to meet the financial requirements, from time to time. IPO is the process of transforming an unlisted company into a listed company, by selling the portion of its stake to the investors. Shares are typically issued to the general public, by using either the book building mechanism or the fixed price mechanism. In the book building mechanism, the company decides the price band, and interested investors must bid on it before the final price is arrived. In the fixed price mechanism, the company sets the price. The difference between the issue price and the price on the day of listing that allows investors to sell IPOs at a higher price on the listing day, is known as underpricing. A stock is usually underpriced temporarily and the laws of demand and supply will eventually drive it towards its intrinsic value.

Coronavirus pandemic was perhaps the most terrible calamity faced by the world in recent times. India's Prime Minister announced a nationwide lockdown on March 24, 2020, which caused many businesses to shut down for months. However, this scenario changed after the announcement of a stimulus package by the Government of India on May 17, 2020. The stock market started performing well and the silver lining was the IPOs, which went on board during this period. The present paper focuses on the IPOs, which went on board from 1st April 2020 to 31st March 2022.

2. Review of Literature

The study was undertaken, to analyze the factors affecting the performance of IPOs, during the period from 2007 to 2012. Over subscription, time delay in listing, offer price, market return, and various other micro and

macroeconomic factors were taken into account (Bhullar, P. S., & Bhatnager, 2014). In this article, the underlying returns of IPOs have been examined and variables influencing short-term performance of initial public offerings, from 30 nations, were analyzed. According to the study, underpricing and stake sales at initial public offerings are positively correlated. (Choi, S.D., & Nam, S.K. 1998). The paper is an empirical study to validate the achievement of IPOs issued in India. The research was conducted on 271 IPOs, which went into market from 1999 to 2012 and it was seen that nearly 84.5 percent of IPOs were underpriced (Goyal, S., & Singh, I, 2014). The paper examined the first day accomplishment of IPOs in the stock markets of India, for a span of 15 years and revealed that underpricing was present. However, the book-built issues were underpriced to a lesser extent (Hawaldar, I. T., Naveen Kumar, K. R., & Mallikarjunappa, T., 2018). The article explored the immediate achievement of the IPOs, issued in Canada, from 2010 to 2017. It was observed that Canadian IPOs were priced lower only marginally during the study period (Killins, R. N., 2019). The paper examined how IPOs on the listing day were influenced by the earnings management. It was concluded from the study that the day of listing returns and the management of earnings differed, on the basis of the year of issue and the type of industry (Mangala, D., & Dhanda, M., 2021). The purpose of the study was to assess one-month performance of IPOs issued between 2006 and 2009. It was seen that the listing day returns were high but this diminished in the later period. (Murthy, K. B., & Singh, A. K., 2014). The paper proposes to study the ability of IPOs, both in the short run and long run, from January 2004 to December 2013. The paper concluded that IPOs were good at short term and medium-term

investment (**Pandya, F. H., 2016**). The study explains the outcomes of IPO pricing in the Indian capital market during 2005-09. The Researcher has also focused on the acceptance of book building method of public issue by the investors (**Roopa, 2012**). The paper studied 117 IPOs, which went into market from 2009 to 2013, by calculating Market Abnormal Excess Returns. The study also identified the factors, which affected the performance of IPOs (**Samanta, P. K., Dam, S., Saluja, R. S., Bansal, S., & Chhabra, N., 2018**). The paper studied the impact of international capital market, which was highly volatile during 2008, on Bombay Stock Exchange (**Sankaran Venkateswar, 2008**). The study focussed on the performance of 113 IPOs issued in Indian market from January 2010 to December 2014 and it was found that majority of IPOs gave favorable return to investors on the listing day (**Shah, S. N., & Mehta, D. H., 2015**). The study looked at the performance of Hong Kong's Initial Public Offerings (IPOs) on their listing days, from 1994 to 2005. It found that IPOs with reputable underwriters, had reported lower percentages of underwriting on their listing day (**Vong, A. P., & Trigueiros, D., 2010**). The paper analysed 102 IPOs listed in Malaysia from 2000 to 2008 and it was concluded that size of IPO, status of underwriter and volatility of market, influenced underpricing in IPOs (**Yazdani, L., & Aris, S., 2015**).

3. Statement of the Problem

A primary market is where new securities are offered to the public. Due to COVID 19 pandemic, the last two years had been extremely challenging for all the businesses. But the Indian capital market was able to perform very well during the pandemic period and many companies

were able to raise money through initial public offerings. The study was done mainly to understand how the IPOs, issued during the COVID period, performed in the short run. It is essential to know whether the companies, which went for public issue during this period, were able to satisfy the investors with good return.

4. Need of the Study

Raising funds to meet the growing demands is a major challenge for businesses. This became even more difficult during the COVID-19 pandemic. Organizations can raise capital from the overall population through IPOs. An IPO's success is only determined by how well it performs in the stock market, by providing investors with good returns. Investors benefit greatly when the shares are underpriced. An analysis of the short run accomplishment of initial public offerings (IPOs), in the past fiscal years 2020–21 and 2021–22, is the focus of the current investigation. The study focuses on accomplishment of IPOs on the day of listing as well as their performance during one month and three months later.

This study was conducted to ascertain whether the short-term performance of IPOs was sufficiently consistent. Particularly, traders will benefit greatly from this study because it will assist them in making sound decisions. Additionally, it aids businesses in planning their long-term wealth-maximizing strategies.

5. Objectives of the Study

1. To analyse the accomplishment of IPOs during the period under study.
2. To measure the underpricing of the IPOs on the listing day i.e., from the date of offer to public to the date of listing on the stock market.

3. To determine the extent of IPO underpricing in the short term, or one month and three months after the listing date.
4. To evaluate if there is any substantial difference in the IPOs mean returns prior to and after adjusting for the market index.
5. The purpose is to determine whether there is any major difference in the mean returns and market adjusted returns calculated on the day of listing, one month after listing, and three months after listing.

6. Hypotheses of the Study

H₁: The mean returns of the IPOs differ significantly before and after adjusting it to the market index.

H₂: Raw returns differ substantially between the three periods of study, namely, on the day of listing, one month after listing, and three months after listing.

H₃: Market adjusted returns are significantly different on the day of listing, one month after listing day, and three months after listing day.

7. Research Methodology

7.1 Sample Selection

The population consisted of all IPOs, which were on offer in the financial year 2020-21 and 2021-22 and listed at BSE, NSE, BSE SME and NSE Emerge. There were nearly 62 IPOs issued during 2020-21 and 126 IPOs issued during 2021-22. However, for the purpose of study, only Mainboard IPOs, listed at NSE and BSE, were considered. IPOs, issued at SME platforms like NSE Emerge and BSE SME, were not considered for the study. Hence only 33 IPOs in the year 2020-21 and 54 IPOs in the year 2021-22, were considered for the study.

7.2 Sources of Data

The study used only secondary data. Websites like chittorgarh.com, nseindia.com, and bseindia.com served as sources for the study's secondary data.

7.3 Period of Study

The research was carried out over two fiscal years, 2020-21 and 2021-22.

7.4 Tools used in the Study

The data were further analysed, with the help of statistical software. ANOVA and paired t tests were used as statistical tools in the study

8. Data Analysis on Short Run Performance of IPOs Issued during 2020-22 in India

Table-1 shows that there was a 63.64% increase in the number of IPOs issued as well as a 128.31% increase in issue size. It demonstrates that there was increased confidence as more businesses chose to go public in the year 2021-2022. It is evident from the above **Table-2** and **Figure-1** that returns on the listing day was high around 32.74% in 2020-21 and 30.41% in 2021-22, which implied underpricing. However, the returns drastically reduced one month after listing and it was -1.59% in 2020-21 and 2.3% in 2021-22. However, these returns improved three months after the listing day. However, raw returns were still negative during three months after listing day for the year 2021-22.

It is evident from **Table-3** and **Figure-2** that 64 and 58 IPOs had recorded positive raw and market adjusted return respectively on the listing day, implying high degree of underpricing on the listing day. However, this number declined one month after listing and improved very slightly three months after listing. The outcome of paired

t test is depicted in **Table-4**. To decide whether there was a substantial distinction between the raw return and market adjusted return, a paired t test was used. It is obvious that there was strong (0.94) correlation between the market adjusted raw return and the raw return. The Table makes it evident that there was substantial distinction between these returns over the course of the study period, and that the p value was less than the significance level of 0.05, indicating that hypothesis H_1 could be accepted.

Table-5 displays the results of ANOVA, that was conducted to see if there was a substantial change in the mean raw returns over the three study periods of day of listing, one month after listing and three months after listing. Since the p value was below the significance level of 0.05, the study's findings indicated that hypothesis H_2 could be accepted. **Table-6** displays the ANOVA results. The market adjusted returns were compared on the day of listing, one month after the listing, and three months after the listing to see if there were any differences. The Table clearly shows that the p value was below 0.05. Hence H_3 was accepted.

9. Findings of the Study

- The study clearly shows that between 2020–21 and 2021–22, there was an increase in the number of IPOs on the Indian market. It shows the confidence of the investors in the Indian market.
- It is understood from the study that there was high level of underpricing on the day of listing. But this trend was reversed and the gain declined as the time passed and it subsequently led to the over pricing of shares. In short, the returns came down after the listing day and tended to normalize.

- Additionally, it is evident from the study that there were substantial differences between raw return and market adjusted return means on the day of listing, one month after listing, and three months after listing.

10. Suggestions

It is evident from the study that every issue was created by using the book-building mechanism of public issue. Price discovery is the primary goal of the book building process; but it was not achieved because most shares were underpriced on the day of listing. According to the study, most companies had a pricing difference between their top and lower price bands of less than Rs. 5. Therefore, it is advised that while fixing the price band, the difference between the lower and upper price limits be widened to provide investors greater leeway in determining the ultimate amount they are ready to pay. It could also assist the businesses in lowering the underpricing on the day of listing.

11. Conclusion

The success of IPOs during this period of crisis was a silver lining when the entire world was experiencing a terrible economic crisis due to COVID 19 pandemic. The profits produced by IPOs were also satisfactory. Recently, SEBI made several changes to the disclosure of issue objects, amended credit rating agency standards, and revised pricing band standards. SEBI has mandated that there must be a 5% gap between the lower and higher pricing band. A cap on offer for sale (OFS) by current shareholders, who hold at least 20% of the pre-issue capital, was also included in the SEBI revisions. According to SEBI's new regulations, these shareholders can only sell 50% of their shareholding. These changes are anticipated to bring about a shift in the underpricing and performance of IPOs in future.

12. Limitations of the Study

The study's biggest drawback was that it only covered two fiscal years of 2020–21 and 2021–22 and was entirely dependent on secondary data. Additionally, any limitations associated with the analysis techniques utilized, are applicable to the study also.

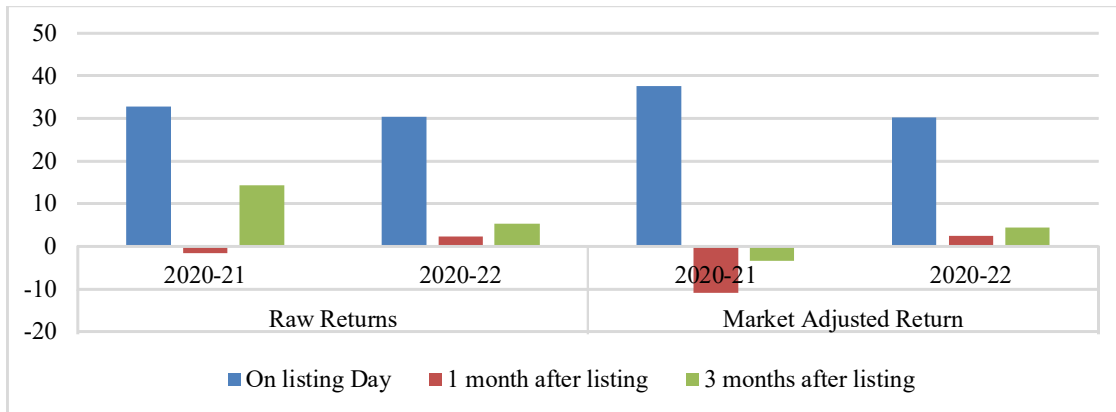
13. Scope for Further Research:

This attempt focused only on the short run achievements of IPOs and it can definitely be extended to long run. Further, only Mainboard IPOs were considered for the study. Hence SME IPOs, issued through BSE SME Segment and NSE Emerge, could also be studied.

14. References

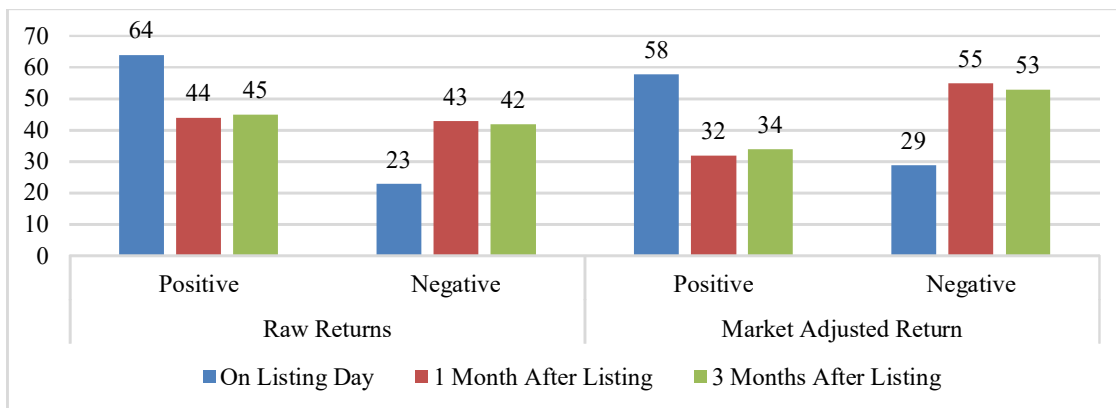
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Figure-1: Graph Showing Average Raw Returns and Average Market Adjusted Returns on the Listing day, 1 Month and 3 Months After Listing



Source: Data collected from chittorgarh, nseindia and bseindia

Figure-2: Graph Showing Number of IPOs with Positive and Negative Returns on the Listing Day, 1 Month After Listing and 3 Months After Listing



Source: Data collected from chittorgarh, nseindia and bseindia.

Table-1 : Issue Size and Number of IPOs Issues in India during 2020-22

Year	Issue Size (Rs. in crores)	Number of IPOs
2020-21	54576.74	33
2021-22	124602.5	54

Source: Data collected from chittorgarh.com and Computed using SPSS

Table-2 : Results of Average Raw Returns and Average Market Adjusted Returns on the Listing Day, 1 Month After Listing and 3 Months After Listing

Particulars	Raw Returns		Market Adjusted Return	
	2020-21	2020-22	2020-21	2020-22
On Listing Day	32.747	30.412	37.582	30.204
1 Month After Listing	-1.588	2.3	-10.930	2.372
3 Months After Listing	14.363	5.371	-3.407	4.306

Source: Data collected from chittorgarh, nseindia and bseindia and Computed using SPSS

Table-3: Results of Number of IPOs with Positive and Negative Returns on the Listing Day, 1 Month After Listing and 3 Months After Listing

Particulars	Raw Returns		Market Adjusted Return	
	Positive	Negative	Positive	Negative
On Listing Day	64	23	58	29
1 Month After Listing	44	43	32	55
3 Months After Listing	45	42	34	53

Source: Data collected from chittorgarh, nseindia and bseindia and Computed using SPSS

Table-4: Results of Paired T Test: Raw Returns and Market Adjusted Returns during the Study Period

	Raw Return	Market Adjusted Return
Mean	13.63533606	10.56982183
Variance	1828.774332	2042.402912
Pearson Correlation	0.949461426	
Hypothesized Mean Difference	0	
df	260	
t Stat	3.491093184	
P(T<=t) two-tail	0.000564996	
t Critical two-tail	1.969130003	

Source: Data collected from chittorgarh, nseindia and bseindia.com and Computed using SPSS

**Table-5 : Results of ANOVA – Raw Returns on the Listing Day,
1 Month after Listing and 3 Months after Listing**

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	43465.89	2	21732.95	12.97893	4.25783E-06	3.030788
Within Groups	432015.4	258	1674.478			
Total	475481.3	260				

Source : Data collected from chittorgarh, nseindia and bseindia.com and Computed using SPSS

**Table-6 : Results of ANOVA - Market Adjusted Returns on the
Listing Day, 1 Month after Listing and 3 Months after Listing**

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	66384.64	2	33192.32	18.431	3.2980E-08	3.03079
Within Groups	464640.1	258	1800.931			
Total	531024.8	260				

Source: Data collected from chittorgarh, nseindia and bseindia.com and Computed using SPSS