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## PERFORMANCE OF PRIMARY MARKET WITH REFERENCE TO SELECT IPO'S OF NSE INDIA

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### Abstract

Initial public offering is the process by which a private company can go public by sale of its stocks to general public. It could be a new, young company or an old company which decides to be listed on an exchange and hence goes public.

The objective of this study is to find whether Indian stock exchange will show short run underperformance of IPO or not, and what are factors influence the long-run underperformance that happens in a company after IPO. Factors influencing IPO performances are represented by four variables are age, time lag, issue size, and company size. This study employs data from companies listed in National Stock Exchange (NSE), which are going public. The results show that Indian Stock Exchange Market shows underperformance short run IPO. Considered IPOs of year 2016,2017,2018,2019.

**Keywords:** Initial Public Offering, Short Run Performance, Underperformance.

### Introduction

IPO in India had its share of ups and downs over a period, for more than the last decade. India introduced structural changes and initiated economic reforms in the year 1991. Since then, India integrated with the global economic reforms which focused on the investment regime, trade policies, the financial sector, taxation and public enterprise. The economic growth and the liberalization of economy, particularly the deregulation of financial sector has led to an unexpected growth of the primary market in India.

In the primary market companies issue securities to raise funds directly from investors on timely basis in order to meet financial requirements for modernization, expansion and diversification projects through the method called new issue market. The primary market plays a vital role in the securities market by forming a link between the saving and investment. It is through this market that the borrowers i.e., the government and the corporates issue securities in which the investors invest their savings. Consequently, this is the place where the new offerings by companies are made either as an initial public offering or as right issue. All firms need to raise capital at one time or another to finance new projects, expand operations or in many cases just to start up their business. Prior to raising funds through private placement, or venture capitalist, companies usually start with raising money from relatives and friends, till the time it grows to a certain scale. Thereafter companies generally raise equity capital from the general public. Once companies go public, they are required to inform the public with their financial statement thereby maintaining their credibility and transparency. Certainly, companies have many other ways of financing, such as retention of earnings, bank loan, overdraft etc, but the equity share are the major source of funding. Initial public offerings often come from smaller, younger companies seeking capital to expand their business. Initial public offering is the first issue of shares a company makes available to the general public. These IPOs are almost always quite risky. Risks are faced by each of the three major parties involved; issuer, investment banker and investor.

It's been observed that investors who purchase initial public offering on the offer day getting higher return on the initial day of listing, believing that these offers may have been evaluated at the lower price as compare to actual Intrinsic value of securities. This concept is generally known as under-pricing. Under-pricing issue of securities presents the main day returns produced by the firm.

Under-pricing refers to positive initial returns, where initial return is defined as percentage of price change from offer price to closing price on the first day's trading. The existence of "Under-pricing" is a well-known fact for the common stock initial public offerings. The degree of under-pricing or overpricing may be measured by the extent to which the first observed price "P" in the secondary market for the stock is above or below the offer price "OP" of the stock.

$[(P - OP)/OP] \times 100 > 0$  indicates under-pricing

$[(P - OP)/OP] \times 100 < 0$  indicates overpricing

### Objectives of The Study

1. To carry out the analysis of listing performance in terms of return on IPO's for short period from the date of offer to public, to the date of their listing on the stock exchange
2. To study the relationship between market return and return on various IPO's
3. To examine the factors affecting the short run performance of IPO's



### Need of The Study

The study shows short performance of IPOs based on listing date or any other factors affecting its performance and it also shows how its returns are varied on intervals.

### Scope of The Study

1. The present study has been considered on equity IPO only. The research can be extended to include all types of IPOs.
2. In this study Nifty has been used as benchmark of returns, other indices can also be used for obtaining comprehensive returns.
3. The study can also be undertaken to analyze the comparison of BSE and NSE.
4. Underpricing phenomenon can also be studied on regional stock exchanges

### Review of Literature

1. **Krishnamurti (2002)** provided an evidence for underpricing of Indian IPOs by analyzing 386 IPOs in post liberalizing era, from the period July 1992 to Dec 1994. The empirical 56 evidence confirmed the underpricing scenario in Indian Market by using raw returns, market adjusted returns. He showed that the risky (par-value) issues are underpriced more. Furthermore, issues with smaller offer prices are also underpriced, more probably because these issues are from smaller firms.
2. **India Krishnamurti and Kumar 98(IPOs)** 1992-1993 average return 35.3
3. **Singh and Mittal (2003)** in their study on 500 IPOs listed on Bombay Stock Exchange, reported that the internationally observable phenomenon of IPO market was characterized by pervasive underpricing in the short run. The study reported an average underpricing of 83.22 per cent. Indian investors got very high returns up to a period of six months and thereafter the returns had decline. The main explanatory variables found for underpricing of Indian IPOs were: the age of the firm, issue size and listing delay.
4. **Madhusudan and Thiripalraju (1997)** carried out a study on Indian IPO market for the short-term underpricing. The study used a sample of 1922 companies, which came out with issues and listed on BSE from 1992 - 1995. They found that the returns given by the Indian IPOs were very high in the short run compared to the experiences of other countries.
5. **Loughran and Ritter (2004)** examined 6391 IPOs issued during the period 1980–2003 in United States and found that the mean first-day return was 18.7 per cent, but averaged 65.0 per cent during the bubble period of 1999–2000. In their study, like almost all others, underpricing is defined as the per cent difference between the offer price and closing price on the first day of trading.
6. **Sohail and Nasr (2007)** studied the short-run and long-run performance of 50 IPOs listed on Karachi Stock Exchange (KSE) from 2000 to 2006. They found that the average underpricing was 35.66 per cent.
7. **Gajewski and Gresse (2008)** studied the relationship between underpricing and information asymmetry by taking a sample of 204 IPOs through an ownership dispersion variable and has found that Information asymmetry was negatively linked to the level of initial underpricing, suggesting that more public information is produced on more underpriced IPOs.

### Research Methodology

**Secondary Data:** The secondary data is collected from NSE, Chittorgarh website.

### Limitations

1. The present study is restricted to IPOs which have equity shares as their instrument of issue
2. The present study is based on secondary data collected from various sources
3. The period of study is from 2016 to 2019

### Data Analysis

Year	IPO	% of total	Issue size	% of total
2016	26	25.24	26500.82	18.12
2017	38	36.89	75278.57	51.49
2018	24	23.33	31731.28	21.70
2019	15	14.56	12664.32	8.66
total	103	100%	146174.99	100%



Maximum number of IPO's is observed in year 2017 with 38 IPO's, followed by 26 in 2016, 24 in 2018, 15 in 2019. In the year 2017 it indicates that capital market witnessed big number of IPO's during these years. These IPO's took 9 days to 11 days maximum to list on national stock exchange

**2016 IPOs**

Issuer Company	Issue Open	Issue Close	Issue Price	Listing Day closing price	Initial return
Precision Camshafts Ltd IPO	Jan 27, 2016	Jan 29, 2016	186	177.45	-4.60
Team Lease Services Ltd IPO	Feb 2, 2016	Feb 4, 2016	850	1032	21.41
Quick Heal Technologies Ltd IPO	Feb 8, 2016	Feb 10, 2016	321	253.85	-20.92
Healthcare Global Enterprises Ltd IPO	Mar 16, 2016	Mar 18, 2016	218	171	-21.56
Bharat Wire Ropes Ltd IPO	Mar 18, 2016	Mar 22, 2016	45	45.55	1.22
Infibeam Incorporation Ltd IPO	Mar 21, 2016	Mar 23, 2016	432	445.75	3.18
Equitas Holdings Limited IPO	Apr 5, 2016	Apr 7, 2016	110	135.2	22.91
Thyrocare Technologies Ltd IPO	Apr 27, 2016	Apr 29, 2016	446	618.8	38.74
Ujjivan Financial Services Ltd IPO	Apr 28, 2016	May 2, 2016	210	231.55	10.26
Parag Milk Foods Ltd IPO	May 4, 2016	May 11, 2016	215	247	14.88
Mahanagar Gas Limited IPO	Jun 21, 2016	Jun 23, 2016	421	520.3	23.59
Quess Corp Ltd IPO	Jun 29, 2016	Jul 1, 2016	317	503.1	58.71
L&T Infotech Ltd IPO	Jul 11, 2016	Jul 13, 2016	710	697.6	-1.75
Advanced Enzyme Technologies Ltd IPO	Jul 20, 2016	Jul 22, 2016	896	1178.1	31.48
DilipBuildcon Ltd IPO	Aug 1, 2016	Aug 3, 2016	219	251.75	14.95
S P Apparels Ltd IPO	Aug 2, 2016	Aug 4, 2016	268	288.75	7.74
RBL Bank Ltd IPO	Aug 19, 2016	Aug 23, 2016	225	299.4	33.07
L&T Technology Services Ltd IPO	Sep 12, 2016	Sep 15, 2016	860	869	1.05
G N A Axles Ltd IPO	Sep 14, 2016	Sep 16, 2016	207	245.05	18.38
ICICI Prudential Life Insurance Company Ltd IPO	Sep 19, 2016	Sep 21, 2016	334	297.55	-10.91
HPL Electric & Power Ltd IPO	Sep 22, 2016	Sep 26, 2016	202	189.3	-6.29
Endurance Technologies Ltd IPO	Oct 5, 2016	Oct 7, 2016	472	646.9	37.06
PNB Housing Finance Ltd IPO	Oct 25, 2016	Oct 27, 2016	775	891.15	14.99
Varun Beverages Ltd IPO	Oct 26, 2016	Oct 28, 2016	445	459.5	3.26
Sheela Foam Ltd IPO	Nov 29, 2016	Dec 1, 2016	730	1032	41.37
Laurus Labs Ltd IPO	Dec 6, 2016	Dec 8, 2016	428	480.4	12.24

**2017 IPOs**

Issuer Company	Issue Open	Issue Close	Issue Price	Listing Day closing price	Initial return
BSE Limited IPO	Jan 23, 2017	Jan 25, 2017	806	1069.2	32.66
Music Broadcast Ltd IPO	Mar 6, 2017	Mar 8, 2017	333	372.9	11.98
Avenue Supermarts Limited IPO	Mar 8, 2017	Mar 10, 2017	299	641.6	114.58
CL Educate Ltd IPO	Mar 20, 2017	Mar 22, 2017	502	422.1	-15.92
Shankara Building Products Ltd IPO	Mar 22, 2017	Mar 24, 2017	460	632.45	37.49
S Chand and Company Ltd IPO	Apr 26, 2017	Apr 28, 2017	670	676	0.90



IRB InvIT Fund IPO	May 3, 2017	May 5, 2017	102	101.8	-0.20
Housing and Urban Development Corporation Ltd IPO	May 8, 2017	May 11, 2017	60	72.55	20.92
PSP Projects Ltd IPO	May 17, 2017	May 19, 2017	210	199.5	-5.00
IndiGridInvIT Fund IPO	May 17, 2017	May 19, 2017	100	98.64	-1.36
Tejas Networks Limited IPO	Jun 14, 2017	Jun 16, 2017	257	263.5	2.53
Eris Lifesciences Limited IPO	Jun 16, 2017	Jun 20, 2017	603	601.5	-0.25
Central Depository Services (India) Limited IPO	Jun 19, 2017	Jun 21, 2017	149	261.6	75.57
GTPL Hathway Limited IPO	Jun 21, 2017	Jun 23, 2017	170	171.65	0.97
Au Financiers (India) Limited IPO	Jun 28, 2017	Jun 30, 2017	358	541.65	51.30
Salasar Techno Engineering Ltd IPO	Jul 12, 2017	Jul 17, 2017	108	262.5	143.06
Security and Intelligence Services (India) Ltd IPO	Jul 31, 2017	Aug 2, 2017	815	757.05	-7.11
Cochin Shipyard Ltd IPO	Aug 1, 2017	Aug 3, 2017	432	528.15	22.26
Apex Frozen Foods Ltd IPO	Aug 22, 2017	Aug 24, 2017	175	212.1	21.20
Bharat Road Network Limited IPO	Sep 6, 2017	Sep 8, 2017	205	208.45	1.68
Dixon Technologies (India) Limited IPO	Sep 6, 2017	Sep 8, 2017	1766	2891.55	63.73
Matrimony.com Limited IPO	Sep 11, 2017	Sep 13, 2017	985	904.65	-8.16
Capacit'eInfraprojects Limited IPO	Sep 13, 2017	Sep 15, 2017	250	342.55	37.02
ICICI Lombard General Insurance Company Ltd IPO	Sep 15, 2017	Sep 19, 2017	661	681.2	3.06
SBI Life Insurance Company Ltd IPO	Sep 20, 2017	Sep 22, 2017	700	707.55	1.08
Prataap Snacks Limited IPO	Sep 22, 2017	Sep 26, 2017	938	1180.65	25.87
Godrej Agrovet Limited IPO	Oct 4, 2017	Oct 6, 2017	460	595.65	29.49
MAS Financial Services Ltd IPO	Oct 6, 2017	Oct 10, 2017	459	654.4	42.57
Indian Energy Exchange Ltd IPO	Oct 9, 2017	Oct 11, 2017	1650	1629.15	-1.26
General Insurance Corporation of India IPO	Oct 11, 2017	Oct 13, 2017	912	874.3	-4.13
Reliance Nippon Life Asset Management Ltd IPO	Oct 25, 2017	Oct 27, 2017	252	284.4	12.86
Mahindra Logistics Limited IPO	Oct 31, 2017	Nov 2, 2017	429	429.5	0.12
The New India Assurance Company Limited IPO	Nov 1, 2017	Nov 3, 2017	800	727.1	-9.11
Khadim India Limited IPO	Nov 2, 2017	Nov 6, 2017	750	688.85	-8.15
HDFC Standard Life Insurance Company Ltd IPO	Nov 7, 2017	Nov 9, 2017	290	344.6	18.83
Shalby Limited IPO	Dec 5, 2017	Dec 7, 2017	248	239.6	-3.39
Future Supply Chain Solutions Ltd IPO	Dec 6, 2017	Dec 8, 2017	664	686.35	3.37
Astron Paper & Board Mill Ltd IPO	Dec 15, 2017	Dec 20, 2017	50	120.75	141.50
Total					

## 2018 IPOs

Issuer Company	Issue Open	Issue Close	Issue price	Listing day closing price	Initial return
Apollo Micro Systems Limited IPO	Jan 10, 2018	Jan 12, 2018	275	441.75	60.64
Newgen Software Technologies Limited IPO	Jan 16, 2018	Jan 18, 2018	245	252.4	3.02
Amber Enterprises India Limited IPO	Jan 17, 2018	Jan 19, 2018	859	1245.25	44.97
Galaxy Surfactants Limited IPO	Jan 29, 2018	Jan 31, 2018	1480	1700.45	14.90
Aster DM Healthcare Ltd IPO	Feb 12, 2018	Feb 15, 2018	190	181.55	-4.45
H.G. Infra Engineering Ltd IPO	Feb 26, 2018	Feb 28, 2018	270	267.75	-0.83
Bharat Dynamics Ltd IPO	Mar 13, 2018	Mar 15, 2018	428	389.8	-8.93
Bandhan Bank Limited IPO	Mar 15, 2018	Mar 19, 2018	375	476.85	27.16
Hindustan Aeronautics Limited IPO	Mar 16, 2018	Mar 20, 2018	1215	1132.85	-6.76



Karda Construction Ltd IPO	Mar 16, 2018	Mar 21, 2018	180	142.8	-20.67
Sandhar Technologies Limited IPO	Mar 19, 2018	Mar 21, 2018	332	322.15	-2.97
Mishra Dhatu Nigam Limited IPO	Mar 21, 2018	Mar 23, 2018	90	90.05	0.06
ICICI Securities Ltd IPO	Mar 22, 2018	Mar 26, 2018	520	445.1	-14.40
Lemon Tree Hotels Limited IPO	Mar 26, 2018	Mar 28, 2018	56	71.65	27.95
IndoStar Capital Finance Limited IPO	May 9, 2018	May 11, 2018	572	586.1	2.47
RITES Limited IPO	Jun 20, 2018	Jun 22, 2018	185	213.3	15.30
Fine Organic Industries Limited IPO	Jun 20, 2018	Jun 22, 2018	783	822.8	5.08
Varroc Engineering Limited IPO	Jun 26, 2018	Jun 28, 2018	967	1037.35	7.28
TCNS Clothing Co. Limited IPO	Jul 18, 2018	Jul 20, 2018	716	659.15	-7.94
HDFC Asset Management Company Limited IPO	Jul 25, 2018	Jul 27, 2018	1100	1815.95	65.09
Credit Access Grameen Limited IPO	Aug 8, 2018	Aug 10, 2018	422	422.05	0.01
IRCON International Limited IPO	Sep 17, 2018	Sep 19, 2018	475	415.3	-12.57
Garden Reach Shipbuilders & Engineers Limited IPO	Sep 24, 2018	Oct 1, 2018	118	103.3	-12.46
Aavas Financiers Limited IPO	Sep 25, 2018	Sep 27, 2018	821	774.35	-5.68
Total					

**2019 IPOs**

Issuer Company	Issue Open	Issue Close	Issue Price	Listing Day closing price	Initial return
Chalet Hotels Limited IPO	Jan 29, 2019	Jan 31, 2019	280	291.7	4.18
MSTC Limited IPO	Mar 13, 2019	Mar 20, 2019	120	113.95	-5.04
Rail Vikas Nigam Limited IPO	Mar 29, 2019	Apr 3, 2019	19	19.05	0.26
Metropolis Healthcare Limited IPO	Apr 3, 2019	Apr 5, 2019	880	959.85	9.07
Polycab India Limited IPO	Apr 5, 2019	Apr 9, 2019	538	654.8	21.71
Neogen Chemicals Limited IPO	Apr 24, 2019	Apr 26, 2019	215	263.55	22.58
IndiaMART InterMESH Limited IPO	Jun 24, 2019	Jun 26, 2019	973	1301.95	33.81
Affle (India) Limited IPO	Jul 29, 2019	Jul 31, 2019	745	873.65	17.27
SpanSdanaSphoorty Financial Ltd IPO	Aug 5, 2019	Aug 7, 2019	856	847.8	-0.96
Sterling and Wilson Solar Ltd IPO	Aug 6, 2019	Aug 8, 2019	780	726.2	-6.90
Vishwaraj Sugar Industries Ltd IPO	Sep 30, 2019	Oct 4, 2019	60	60.35	0.58
IRCTC Limited IPO	Sep 30, 2019	Oct 3, 2019	320	727.75	127.42
CSB Bank Limited IPO	Nov 22, 2019	Nov 26, 2019	195	300.05	53.87
Ujjivan Small Finance Bank Ltd IPO	Dec 2, 2019	Dec 4, 2019	37	55.95	51.22



Prince Pipes and Fittings Ltd IPO	Dec 18, 2019	Dec 20, 2019	178	166.9	-6.24
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### Interpretation

The return which are specified in above table are initial /raw return which implies that. Returns from date of offer to first day of trading(closing) value are under-priced or overpriced, which are greater than zero are under-priced, which are less than zero are overpriced.

Other factors which are affecting the pricing performance of IPO's are:

1. Age of the firm
2. Offer price
3. Offer size
4. Industry
5. Lead managers
6. Year of listing
7. Aftermarket trading lead time

### Findings

1. Low priced issues have positive returns at initial stage but after one-year period, return on this stock is also at low
2. Low priced issues give better returns as compared to high priced issues.
3. Irrespective of NIFTY returns some stocks are performing good based on their return performance
4. Investors demand higher returns to compensate for taking the additional risk of little information.

Further, under-pricing across offer price indicates that larger returns are associated with smaller offer prices. As the offer price increases the returns decline (depends on companies track record)

### Suggestions

1. Higher offer prices are associated with offerings of firms having good track record, and thus a negative relationship between offer prices and under-pricing. They should take into consideration price, size, age, lead managers, industry etc. of the company. Investors should invest in par issues so as to get maximum returns.
2. In India, issue size plays a significant role in deciding the listing performance of IPOs. It is expected that on an average, smaller offerings are more speculative, than larger offerings.
3. Investors should first apprise themselves with company prospects, industry prospects, financial position and risk factors associated before investing in an IPO.
4. As far as publicly trading companies are concerned, their main objective is to get funds at lower costs so that they do not face problem in follow up offerings. They should take into consideration that the lead manager should be of good quality so that in future fewer under-pricing takes place.

### Conclusion

An IPO being the first offer made by a company to the general public, not only provides them largest source of funds but also with long or indefinite maturity which gives an opportunity to investors for buying the shares directly from the company at the price of their choice (in book build Initial public offerings). There are several reasons for a firm to go public and it would vary from one firm to other firm. The growing entrepreneurs approach the new issue market to finance their business expansion activities and also acquire a global exposure and recognition by listing at the stock exchange. Various other specific benefits (for coming out with an IPO) from a company's perspective include diversifying equity base, attracting and retaining better management and employees through liquid equity participation, facilitating acquisitions and increased liquidity of the investments for the former owners. And from an investor's perspective, investment in the IPOs now provides them a part of the ownership and gives them a hope to enjoy share in the profits, earned by the company in the future. They seek to yield a maximum return on their investments. Hence an IPO is very crucial for company's growth as well as for investor's confidence.

Various researchers all over the world have found a significant difference between the issue price and comparatively higher listing price, known as Under-pricing. This significant difference makes the investments in IPOs more attractive in the Indian stock market and provides an opportunity to the investors to make good listing gains in very short period of time. These short-term gains make the investors go crazy for investing in IPOs.

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