Listing Day Performance of IPOs During 2012-2016

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Abstract

Initial Public Offers (IPOs) are the most common form of raising capital through primary market. Globally, the book building method is considered to be the most efficient way of price discovery. In this paper we attempt to study the listing day performance of book built IPOs in India during January 2012 to September 2016. The study used secondary data and simple statistical tools like Mean, Median and standard deviation. It was observed that on average IPOs have given positive listing day return to investors. Our study affirms the same view. It has been analyzed that pricing the IPO and timing the market are one of the key factors that determine returns. In the past many studies have shown that underpricing is used as a method in the short run to attract investors to the primary market. It is also observed that timing the IPO during market growth period is beneficial for both the issuer and the investor.

Keywords: *Initial Public Offer, IPOs, underpricing, listing day returns, ASBA, Book built*

Paper Type: *Empirical Study*

Introduction

When a company offers its securities for the first time to the investors by way of issuing its prospectus it is referred to as an Initial Public Offer (IPO) or going public. There are many reasons behind the decision of going public like raising funds, risk diversification, lowering cost of capital, liquidity, reputational benefits. But there are two sides of a coin, thus a company has to incur certain costs pertaining to corporate governance and abiding by the disclosure requirements.

In India prior to 1992 new companies were allowed to issue shares only at par while existing companies could issue shares at a premium calculated in accordance with CCI (Controller of Capital Issue) norms. In 1995, The Malegam Committee suggested the introduction of book building method. This process is recognized internationally as the most efficient system of price discovery for securities to be listed for the first time on the stock exchanges. Under this process bids are received from the potential investors within the price range specified by the company in consultation with its lead managers.

In order to evolve this price discovery model in IPOs SEBI adopted 100% book built issues in the year 2000. Since then efforts have been taken to simplify and streamline the process of IPOs in India. In continuation with this effort The Hon'ble Finance Minister in his speech while presenting Union Budget 2012-13 said

"Simplifying the process of issuing Initial Public Offers (IPOs), lowering their costs and helping companies reach more retail investors in small towns. To achieve this, in addition to the existing IPO process, I propose to make it mandatory for companies to issue IPOs of Rs. 10 crore and above in electronic form through nationwide broker network of stock exchanges." Other recent reforms in the primary market sphere have been the endeavor to streamline the process of public issues by reduction in the time taken for listing after the closure of the issue to 6 working days. There has been a noteworthy operational change in terms of application for public issue, Beginning January 2016 all the investors applying to a public issue shall use only Application Supported by Blocked Amount (ASBA) facility for making payment under which the investors mention their bank account numbers thereby authorizing the banks to make payment in case of allotment by signing the application forms, thus eliminating the need of writing the cheques.

Literature Review

There have been several studies undertaken to analyze and study the short run & long run performance of IPOs. The studies to analyze the short run performance of IPOs indicate that the most common aspect observed is the underpricing of IPOs to give abnormal positive returns to attract investors towards new issues market. The following past studies state the same.

Reilly and Hatfield (1969) studies the IPOs in the U.S. market for the period 1963-1965 and found the underpricing to be around 11%.

Rock (1986) categorized investors as informed and uninformed. The study states that when a new issue comes to the market the informed investor keeps away from over-priced IPOs to which the uninformed investor receives the maximum allotment; this over-priced offering shall lead to negative return which would cause them to keep away from further issues. So the study states that in order to retain uninformed investors in the market it is necessary to underprice the new issue thereby reducing the information asymmetry.

Shah (1995) studied the performance of 2056 issues during the period January 1991-1995 and observed a phenomenal return of 105.6% over the issue offer price.

Krishnamurti and Kumar (2002) in their study of IPOs for the period 1992-1994 observed underpricing to the extent 72.34%

Kakati (1999) observed underpricing to the extent of 36.6% in the short run and over-pricing to the extent of 40.8% in its sample of 500 issues for the period January 1993-March 1996.

SSS Kumar in his study of IPOs listed during the period 1999-2006 with a sample size of 156 issues observed positive return on listing day to the extent of 26.35% (un-annualized) and long run negative return to the extent of -3.89% (annualized)

Sweety Shah & Disha Mehta (2015) in their study of listing day performance for 113 IPOs listed on the National Stock Exchange (NSE) during the period January 2010 to December 2014 observed a listing day positive return to the extent of 7.19% and also observed that IPOs are initially underpriced.

Framework of Study

Objectives of the Study

In this paper we attempt to measure the listing day price performance of IPOs by calculating the average return of IPOs on listing for the period January 2012 to September 2016.

Sample & Research Methodology

The study used secondary data for all new equity shares listed on the National Stock Exchange (NSE) through the book building route. We have collected the data for the period 2012 to 2016(up to 30th September) from NSE's website and respective company prospectus.

The sample used in this study consists of all the companies listed on the NSE from January 2012 to September 2016. Data is taken of 59 companies for this study.

Table 1: Number of IPOs listed on NSE (2012-2016)

Year	Number of IPOs
2012	10
2013	3
2014	5
2015	21
Upto 30th September 2016	20
Total	**59**

(Source: NSE's website)

Research Analysis and Results

The Table 1 shows the number of IPOs in each year. It can be noted that a total of 59 IPOs have been issued by the way of book building during January 2012 to September 2016. The number of IPOs have picked up drastically from the year 2015.

Table 2 : Average IPO returns on listing day

Year	Mean		Median		Standard Deviation	
	Day Open Offer Price	Day Close Offer Price	Day Open Offer Price	Day Close Offer Price	Day Open Offer Price	Day Close Offer Price
2016*	13.02%	12.09%	5.99%	12.57%	0.185	0.195
2015	7.48%	10.04%	2.38%	3.11%	0.150	0.188
2014	30.56%	26.52%	28.00%	26.24%	0.299	0.299
2013	2.07%	2.24%	1.90%	- 3.19%	0.074	0.084
2012	6.19%	4.92%	1.97%	3.20%	0.134	0.125

*(*Upto 30th September 2016)*

Table 2 shows the Average IPO return for the respective years. In table 2 day open – offer price indicates the return available to investors when the securities are sold at the listing day open price, similarly day close-offer price indicates the return available to investors when the securities are sold at the closing price on the listing day. We have analyzed the price performance of IPOs based on the opening price as on the listing day and also as on the closing price for 5 years and the results are as follows:

In 2016 (upto 30th September) on an average the IPOs listed with a 13.02% premium over the offer price and the median premium is around 6% with a standard deviation of 0.185. We also computed the performance as per the listing day closing price and the average gains were 12.09% with an increase in median by 6.58% and 0.01 in standard deviation.

Similarly, IPOs in 2015 paid average premium of 7.48% over the offer price while day close premium was 10.04% over the offer price.

The year 2014 witnessed only 5 IPOs where the average premium that investors received was 30.56% over the offer price while the day close premium stood at 26.52% over the issue price.

Returns in 2013 were on the lower side by providing investors only 2.07% premium and 2012 provided 6.19% returns on an average. In the same way returns as per the day closing for 2013 and 2012 were 2.24% and 4.92% respectively.

Conclusion

The study tried to find the average listing day returns for the period January 2012-September 2016. The data consisted of 59 companies listed on the National Stock Exchange through the book building route. Upon listing on average the IPOs provided positive returns to investors. The study indicates the presence of underpricing that prevails in the short run to attract investors. In a nutshell IPOs have proven to be advantageous for investors who invest with a short run perspective.

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