



AN ANALYSIS OF INITIAL PUBLIC OFFERINGS - IN INDIAN PRIMARY MARKET

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Abstract

Initial Public Offerings are regarded as an Investment tools for stock market investors. Investors will also be very much interested in IPOs, as it is been evidenced by the many researches that the IPOs provide excess returns on the first day trading. On the contrary few researches have also evidenced that IPOs are also overpriced. On this backdrop the researcher wants to examine whether IPOs issued during 2015 are overpriced, under-priced or fairly priced. It is been found that out of twenty companies IPOs, 60% of IPOs are Under-priced, 40% of IPOs are overpriced and none are fairly priced. It is also been found that the co-efficient of variation between under-priced and overpriced IPOs is consistent.

Key words: IPOs, Under-pricing, Overpricing, Co-efficient of Variation, Primary Market.

Introduction

The primary market provides the channel for sale of new securities. It provides the opportunity to issuers of securities, Government as well as corporate, to raise resources to meet their requirements of investment and/or discharge some obligation. It is a place where securities are introduced as an offer to the public. This offer may be for the first time i.e. an Initial Public Offer (IPO) or an issue by an existing listed company i.e. a Seasoned Equity Offering (SEO), or a Follow-on Public Offering (as known in India).

Now-a-days Initial Public Offer (IPO) has become one of the preferred investments for the investor. In the recent years many companies have come up with IPO to raise funds to their requirements. Investing in IPO is considered as one of the risky investments. It is because the market behaviour is not known especially in volatile share market. Performance of the IPO varies in accordance with the market i.e. bullish to bearish. Interests of the investors are influenced by the market trend and thus the performance of the IPO.

For the individual investor, it is tough to predict about the performance of stock or shares on its initial day of trading and in the near future since there is often little historical data for the technical analysis of the stock. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value.

STATEMENT OF THE PROBLEM

IPO is been regarded as one of the preferred investment by the investors. On the other hand, is been regarded as a major source generator for the issuing company for their financial needs. As evidenced by the many researches IPOs provide an excess returns on the listing day. On the contrary it is also been argued by few researches that many IPOs are even overpriced. Whether investors are able to earn abnormal returns on the listing day with respect to all the IPOs? In this context, the study is been under taken to determine the under-pricing, over-pricing or fair pricing of IPOs issued during the year 2015.

OBJECTIVES OF THE STUDY

1. To determine the Under-pricing of IPOs during 2015.
2. To determine the Overpricing of IPOs during 2015.
3. To examine the Co-efficient of Variation between Underpriced and Overpriced IPOs.

RESEARCH METHODOLOGY

Descriptive Research: The Descriptive research method is used for the study. The Descriptive research method comprises surveys and fact-finding enquiries of different types. The main objective of descriptive research is describing the state of affairs as it prevails at the time of study. The most distinguishing feature of this method is that the researcher has no control over the variables here. He/she has to only report what is happening or what has happened.

Target Population: The companies which issued IPOs in Indian primary market during the year 2015 and successfully listed on National Stock Exchange (NSE) are considered as population for the study.

Sample Size: In the year 2015 twenty companies have come out with IPOs. All the issues have been considered for the study. However, for the purpose of determining the co-efficient of variation, sample of eight companies whose shares are under-priced and eight companies whose shares are over-priced are considered.

Data Collection Sources: The main data sources for the present study are secondary sources; data regarding details of IPO of companies and their prices (i.e., Issue Price and Listing Price) are extracted from the official websites of respective companies and National Stock Exchange as on to the particular date. The various textbooks listed in references are referred for the study material regarding data analysis tools & theoretical aspects.

Data Analysis Tools: The basic statistical tools like Mean, Standard Deviation and Co-efficient of Variation are used for the study.

DATA ANALYSIS AND INTERPRETATION

Table No. 1: Showing Under-Pricing or Over-Pricing of IPOs during the year 2015.

Sl.No.	Name of the Company	Issue Price (IP)	Listing Price (LP)	% of Under Pricing/Overpricing = $(LP-IP)/IP*100$
1	Alkem Laboratories Limited	1050	1,341.85	27.80
2	Dr. Lal PathLabs Limited	550	824.15	49.85
3	S H Kelkar and Company Limited	180	222	23.33
4	InterGlobe Aviation Limited	765	878	14.77
5	Coffee Day Enterprises Limited	328	270.15	-17.64
6	Prabhat Dairy Limited	115	115.95	0.83
7	Sadbhav Infrastructure Project Limited	103	111	7.77
8	Shree Pushkar Chemicals and Fertilisers Limited	65	60.05	-7.62
9	Pennar Engineered Building Systems Limited	178	169.9	-4.55
10	Navkar Corporation Limited	155	167.95	8.35
11	Power Mech Projects Limited	640	586.55	-8.35
12	Syngene International Limited	250	310.55	24.22
13	Manpasand Beverages Limited	320	327.75	2.42
14	PNC Infratech Limited	378	360.5	-4.63
15	UFO Moviez India Limited	625	597.3	-4.43
16	MEP Infrastructure Developers Limited	63	58.4	-7.30
17	VRL Logistics Limited	205	294.1	43.46
18	Inox Wind Limited	325	438.4	34.89
19	Adlabs Entertainment Limited	180	192.65	7.03
20	Ortel Communications Limited	181	162.25	-10.36

Interpretation

The determination of under-pricing, over-pricing and fairly pricing can be understood with the help of following table. If the % of Under-pricing or Over-pricing is:

Positive	Under-Priced
Negative	Over-Priced
Zero	Fairly Priced

From the table number 1, it is been observed that twenty companies have come out with successful IPOs during 2015. Eight companies out of twenty companies forming 40% of the sample are Over-priced. Those are, Coffee Day Enterprises Limited: 17.64%, Shree Pushkar Chemicals and Fertilisers Limited: 7.615%, Pennar Engineered Building Systems Limited: 4.551%, Power Mech Projects Limited: 8.352%, PNC Infratech Limited: 4.63%, UFO Moviez India Limited: 4.432%, MEP Infrastructure Developers Limited: 7.302% and Ortel Communications Limited: 10.36%.

Twelve companies forming 60% of the sample are Under-priced. Those are, Alkem Laboratories Limited: 27.795%, Dr. Lal PathLabs Limited: 49.845%, S H Kelkar and Company Limited: 23.333%, InterGlobe Aviation Limited: 14.771%, Prabhat

Dairy Limited: 0.8261%, Sadbhav Infrastructure Project Limited: 7.767%, Navkar Corporation Limited: 8.3548%, Syngene International Limited: 24.22%, Manpasand Beverages Limited: 2.4219%, VRL Logistics Limited: 43.463%, Inox Wind Limited: 34.892%, Adlabs Entertainment Limited: 7.0278%.

Table No. 2: Showing the list of Companies whose shares are under-priced during 2015.

S N	Name of the Company	Issue Price	Listing Price	X	\bar{X}	D	d ²	SD
1	Alkem Laboratories Limited	1050	1,341.85	27.795	19.61	8.1852	66.998	14.4
2	Dr. Lal PathLabs Limited	550	824.15	49.845	19.61	30.235	914.18	
3	S H Kelkar and Company Limited	180	222	23.333	19.61	3.7233	13.863	
4	InterGlobe Aviation Limited	765	878	14.771	19.61	-4.839	23.414	
5	Prabhat Dairy Limited	115	115.95	0.8261	19.61	-18.78	352.84	
6	Sadbhav Infrastructure Project Limited	103	111	7.767	19.61	-11.84	140.26	
7	Navkar Corporation Limited	155	167.95	8.3548	19.61	-11.26	126.68	
8	Syngene International Limited	250	310.55	24.22	19.61	4.61	21.252	
9	Manpasand Beverages Limited	320	327.75	2.4219	19.61	-17.19	295.43	
10	VRL Logistics Limited	205	294.1	43.463	19.61	23.853	568.99	
11	Inox Wind Limited	325	438.4	34.892	19.61	15.282	233.55	
12	Adlabs Entertainment Limited	180	192.65	7.0278	19.61	-12.58	158.31	
				X= 156.9119		d= 0.03	d ² = 1659.48	

Note: X = % of Under-pricing

SD= Standard Deviation

$$\bar{X} = \frac{\sum X}{n} \text{ i.e., } \bar{X} = \frac{156.9119}{8} = 19.61$$

$$SD = \frac{\sum (X_i - \bar{X})^2}{n} = 14.4$$

$$\text{Co-efficient of Variation} = \frac{SD}{\bar{X}} \text{ i.e., } \frac{14.4}{19.61} = 0.734$$

From the table number 2 it is evident that average percentage of under-pricing of the IPOs issued during the 2015 is 19.61, the standard deviation of under-priced IPOs is 14.4 and co-efficient of variation is 0.7341. It indicates under-priced IPOs are more consistent in nature.

Table No: 3 Shows the Companies issued shares are over-priced

SN	Name of the Company	Issue Price	Listing Price	X	\bar{X}	d	d ²	SD
1	Coffee Day Enterprises Limited	328	270.15	-17.64	-8.11	-9.527	90.767	4.1
2	Shree Pushkar Chemicals and Fertilisers Limited	65	60.05	-7.615	-8.11	0.4946	0.2446	
3	Pennar Engineered Building Systems Limited	178	169.9	-4.551	-8.11	3.5594	12.67	
4	Power Mech Projects Limited	640	586.55	-8.352	-8.11	-0.242	0.0584	
5	PNC Infratech Limited	378	360.5	-4.63	-8.11	3.4804	12.113	
6	UFO Moviez India Limited	625	597.3	-4.432	-8.11	3.678	13.528	
7	MEP Infrastructure Developers Limited	63	58.4	-7.302	-8.11	0.8084	0.6535	
8	Ortel Communications Limited	181	162.25	-10.36	-8.11	-2.249	5.0585	
				X = - 64.882		d = 0.003	d ² = 135.09	

Note: X = % of Over-pricing

SD= Standard Deviation

$$\bar{X} = \frac{\sum X}{n} \text{ i.e., } \bar{X} = \frac{64.882}{8} = -8.11$$

$$SD = \frac{\sum (X_i - \bar{X})^2}{n} = 4.1$$



Co-efficient of Variation = SD / x i.e., $4.1 / -8.11 = -0.5055$

From the table number 3 it is evident that average percentage of over-pricing of the IPOs issued during the 2015 is -8.11, the standard deviation of under-priced IPOs is 4.1 and co-efficient of variation is -0.5055. It indicates over-priced IPOs are more consistent in nature.

CONCLUSION

The Indian Primary market is considered to be the safest way to invest in stock market. This study analysed underpricing and overpricing of IPOs issued during the calendar year 2015 in Indian Primary Market. The Listing day prices of IPOs revealed that 12 out of 20 company's IPOs are underpriced, whereas remaining companies (i.e. 8 out of 20) are overpriced. It indicates Indian Primary market provides more profit to the investors who have invested through IPOs, as most of the IPOs issued during the year 2015 are underpriced. The Coefficient of Variation reveals that underpriced and overpriced IPOs are more consistent in nature.

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