



THE IMPACT OF IPO ON THE INDIAN CAPITAL MARKET

#¹SK.SAMEER, *PG Student,*

#²SANDRUPATLA DURGHA CHARI, *PG Student,*

Department of Master of Business Administration,

SAI SPURTHI INSTITUTE OF TECHNOLOGY, SATHUPALLI, KHAMMAM, TELANGANA.

ABSTRACT: Initial public offerings (IPOs) are a way for companies that have not yet been traded publicly to do so. The purpose of this research is to ascertain if and, if so, by how much initial public offerings (IPOs) in India were underpriced. The authors of the study found that Zomato ltd had the highest risk (4.53592) and G R Infraprojects had the lowest risk (1.43869). Results showed that the best return was offered by the IRCTC (127.422), while the worst was provided by the Suryoday small finance bank (-8.91803). Of the 30 IPOs, 17 performed better than average on their first trading day. For the typical person curious about the financial market, attending an IPO could be a fantastic educational opportunity. Researching the market and the histories of firms allows for risk-free investment.

Index Terms - Capital market, Initial Public Offer, Overpricing Under-pricing.

1. INTRODUCTION

An initial public offering (IPO) is the first time a company sells its securities to the public; it permits a previously unlisted company to begin trading on a stock exchange. Each initial public offering (IPO) has its own specific purpose. In order to get the Company's existing equity shares listed, the position of existing equity owners may be diluted in order to use the proceeds from the sale of equity shares for the purposes set forth in the offer document, which may include expanding the Company's current activities, establishing new initiatives, or simply getting the Company's existing equity shares listed. An initial public offering (IPO) occurs when a previously private company issues equity shares to investors in a public offering.

Companies can raise capital by issuing new shares of stock, bonds, or preferred shares to the public in an initial public offering (IPO). Equity shares often make up the bulk of a company's overall capital, however retained earnings, bank loans, overdrafts, and so on are other viable

options. IPOs are commonly used by younger, more promising companies to obtain capital for expansion. Putting money into an initial public offering is dangerous. The Indian financial markets are governed by the Securities and Exchange Board of India (SEBI). It was established to guarantee investor safety and efficient capital market regulation. To improve the effectiveness of the market, SEBI has issued various rules and made structural reforms.

2. INITIAL PUBLIC OFFERING

An IPO is the first time a previously private company has offered its stock to the general public for purchase. Initial public offerings (IPOs) are typically issued by younger, smaller companies in order to generate funds for growth, while larger, privately held companies may also conduct IPOs in order to become publicly listed. Most companies that go public through an IPO are still in their infancy, further clouding their long-term potential. Two common ways of issuing an IPO are the fixed price method and the



book building process.

CONCEPT OF UNDER PRICING

A stock is under-priced if its IPO valuation was too low or the offer price is lower than the stock's previous trading price. It is widely acknowledged that the prices of initial public offerings (IPOs) are too low due to uncertainty and worries about liquidity.

An instance of low price could be: Price Paid vs. Won Bid Price

CONCEPT OF OVER PRICING:

Overpricing occurs when the offer price is greater than the final price or the posting price. The IPO market is inflated because it presumes all IPOs end up in a thriving business. Lack of action could result from either undervaluing or overvaluing something.

3. LITERATURE REVIEW

Researchers Dr. A. S. Ambily, Gayatri Krishna, Aswathy K, and Deepa Balakrishnan used data from the NSE website to analyze the performance of IPOs on the NSE from issue price to final exchanging price between 2013 and 2015. Most importantly, we looked at how the NSE handles IPOs from start to finish, from issue price to closing exchange rate. When comparing the issue price to the final exchange price, the vast majority of investors would rather buy at the lower price. The rate of return graph shows the ROI for a certain time period. According to the research, the issue rate can never be the final exchange rate.

According to research by Rishi S. Saluja, Shikhar Dam, and Pradeepta Kumar Samanta titled "An Investigation and Execution of Beginning Public Proposal in the Indian Market," The execution of the IPO posting itself must be calculated over a considerable time period, beginning with the IPO date and ending with the IPO date on the National Stock Exchange. A total of 117 IPOs were considered as a point of reference between 2009 and 2013. The research presumes that, across industries and regions, there is a constant and

robust correlation between the price of a posting day and the time of day it is acquired.

For her dissertation, Dr. Ravi Kiran wanted to analyze the costs associated with initial public offerings (IPOs) from India that were traded on the National Stock Exchange (NSE) between 1999 and 2008. According to the results, the Indian stock market is likely undervalued. The Indian regulatory framework for IPOs deserves some thought. The research depends on volunteered information. More details have been released by the National Stock Exchange of India. It is deducible that undervaluation causes more damage in the short term.

In order to expand their business in the Indian market, Thomson Reuters is conducting research on and implementing a new public proposition. In this study, we dissected both the short-run and long-run performance of the companies to better understand the uniqueness of extraordinary returns and to analyze the performance of the IPOs. This report was put together using information from the NSE, CMIE PROWESS, and CAPITAL LINE. The focus of the present inquiry was mostly on tertiary sources of information. This study set out to dissect the IPO presentation in the primary and secondary markets.

Iqbal (2018) Thonse Hawaldar and Naveen Kumar examined the execution of initial public offerings (IPOs), book manufactured IPOs (BMOs), and fixed value IPOs (FVOs) on the day of their posting on the Indian securities exchange, as well as the execution of BMOs, BMOs, and FVOs by resellers after the posting day. They looked at the evaluation and how well 464 Indian IPOs were carried out when they were first introduced to the world market between 2001 and 2011. They hypothesized that for the first five years after an IPO, the CAAR would be negative for book-designed IPOs but would become positive for fixed-value IPOs after the first six months and remain positive thereafter.

The listing of IPOs in the NSE Indian database



was investigated by Ms. Aswini G. K. and Jyothi G. H. Data was gathered for analysis from the NSE and BSE websites. Based on a comparison of issue cost to closing cost upon issue arrival, this study investigates the presentation of initial public offerings (IPOs). Financial backers have consistently favored purchasing shares at a cheaper issuance cost from 2015 through 2019, data from India's National Stock Exchange (NSE) shows. The connection model was used to study the public offering of shares in the NSE Indian file. The study presupposes that IPOs have the potential to be a long-term investment vehicle or a means to make astronomical profits.

Vaidyanathan (2007) investigated the NSE's value execution of initial public offerings. The results indicate that the undervaluation on the first trading day is driven mostly by the interest shown in a stock during book building and the posting delay, whereas IPO marketing budgets have no effect. Information collected between 2004 and 2006 was analyzed, and 55 specific businesses were chosen for additional investigation. Although the initial public offering (IPO) marketing budget had little effect, the expert has confirmed that the first day undervaluation is heavily influenced by the interest generated for an issue during book building and the posting delay.

In a detailed study of IPO returns, Lowry and Schwert (2000) dissected the entire market's activity down to the firm level. By calculating the typical first returns recognized by financiers from 1960 to 1997, the study also considered robust cycles in the total number of IPOs. Mean, median, standard deviation, and auto-relationships are some of the empirical metrics being used in this investigation. Results have demonstrated that IPO cycles occur and consequently affect returns and underperformance.

Long-term underperformance of initial public offerings is demonstrated by an effort to recognize climate in the Indian stock exchange led by Madhuri Malhotra and N. Premkumar. All of the

IPOs from 2004–2008 have been culled straight from the National Stock Exchange's website. This study also includes the factors that may effect the value reactions surrounding IPOs by the company. Buy and Hold Adjusted Return addressed the issue of implementing an IPO. There was found to be a positive correlation between the number of offers presented at the time of the IPO and underperformance in the Indian stock trade market.

Professors Sweety N. Shah and Disha H. Mehta From January 2010 through December 2014, they looked at the NSE India database to see how 113 IPOs were executed on the posting day. The primary purpose of this study is to evaluate the efficiency with which IPOs are executed on their initial trading day and to calculate the rate at which the market recognizes the unusual return that these securities provide. The period of analysis spans from January 2010 through December 2014, and includes all Indian companies that went public on the international stock exchange during that time period. 113 different institutions' worth of data are used in the analysis. Day-to-day returns and the factors affecting undervaluation were investigated. Research on "Initial public contributions and long-run execution" was conducted by Dr. Satish Mittal and Ms. Seema Verma. The purpose of this review was to shed light on the findings of previous studies conducted in the context of dissecting the long-term performance of IPOs and identifying the causes of their poor performance over the long term. The audit includes 42 different experiments and theoretical studies performed between 1991 and 2014. They conclude that studies of IPOs that have been running for some time still have some unanswered questions to be answered.

An effort by Sanjay Desai to determine "The post-listing performance of initial Public Offers in the Indian market" This study set out to assess the sector-specific market price performance of IPOs



issued between July 2010 and June 2013, covering a time frame of six months to 36 months post-listing. In this analysis, BSE was used to select study samples. The BSE and money control websites were mined for information on the issue price, industry, and market price of IPOs. While the Sensex increased from 10,000 to 20,000 during the course of the study's three-year period, the overall performance of IPOs was negative.

Deb and Marisitty's "The Presentation of an IPO in an Indian Market" (2011) is an attempt in this direction. Aiming to evaluate Indian first public offerings (both with and without initial dividends). The investigation has made use of discretionary data. Statistics derived from NSE, etc. They discovered that thorough analysis of IPOs reduced undervaluation and influenced the enthusiasm of retail investors.

Nurwati A. Ahmad-Zaluki and Lim Boon Kect (2012) conducted a study titled "The performance of commerce in an Indian Market" to determine whether or not the returns are greater in the short term or the long term. Using the conventional method of swindling returns, we may determine the day's short-term returns. Data was compiled from NSE, CMIE expert, and CAPITAL LINE. Secondary data was used for most of the investigation. Their findings suggest that buyers of commercial shares on the Mesdaq market enjoy substantial positive returns in the near term but suffer in the long run.

Aalaa J. hadji and Batool K. Asiri (2014) A study was conducted on "The Performance of Initial Public Giving of Firms Recorded in NSE, India and Gulf Base GCC Index." in order to obtain the display of Indian IPOs for a short period of time, defined as the time between the date of a deal and the date of the final population and the date of the first day of exchanging when listed on a stock exchange. The precise discoveries had revealed that firm age and deal size were clearly large and each adversely moderately known with undervaluing, and that there is a relationship

between financial and commercial enterprise organizations; this inquiry made use of nonobligatory data.

4. DATA ANALYSIS AND INTERPRETATION

Under price/Over price Analysis:

SR.NO.	COMPANY NAME	1ST DAY GAIN
1	ANUPAMRASAYANINDIA LTD	-5.08108108
2	CLEAN SCIENCE AND TECHNOLOGY LTD	76.1388889
3	CRAFTSMAN AUTOMATION LTD	-3.65100671
4	DODLA DAIRY LTD	42.5
5	HOME FIRST FINANCE COMPANY INDIA LTD	1.84362934
6	INDIGO PAINTS LTD	109.204698
7	MACROTECH DEVELOPERS LTD	-4.26954733
8	LAXMI ORGANIC INDUSTRIES LTD	26.5
9	NURECAL LTD	-4.21977674
10	ROLEX RINGS LTD	29.6666667
11	SUR YODAY SMALL FINANCE BANK LTD	-8.91803279
12	TATVA CHINTAN PHARMA CHEM LTD	113.499538
13	ZOMATO LTD	65.7894737
14	ANGEL BROKING LTD	-9.86928105
15	COMPUTER AGE MANAGEMENT SERVICES LTD	-0.01426941
16	EXXARO TILES LTD	-0.76335878
17	HAPPIEST MINDS TECHNOLOGIES LTD	123.463855
18	IRCTC	127.421875
19	KRISHNA INSTITUTE OF MEDICAL SCIENCES LTD	20.8424242
20	PRINCE PIPES AND FITTINGS LTD	-6.23595506
21	ROSSARI BIOTECH LTD	74.5058824
22	ROUTE MOBILE LTD	86.0857143
23	RAIL VIKAS NGAM LTD	-0.6
24	SBI CARDS AND PAYMENT SERVICES LTD	-9.74834437
25	WINDLASS BIOTECH LTD	-11.4891304
26	GLENMARK LIFE SCIENCES LTD	3.95833333
27	BURGER KING INDIA LTD	125
28	G R INFRAPROJECTS LTD	108.733572
29	KALYAN JEWELLERS INDIA LTD	-13.5632184
30	SHYAM METALICS AND ENERGY LTD	22.9248366

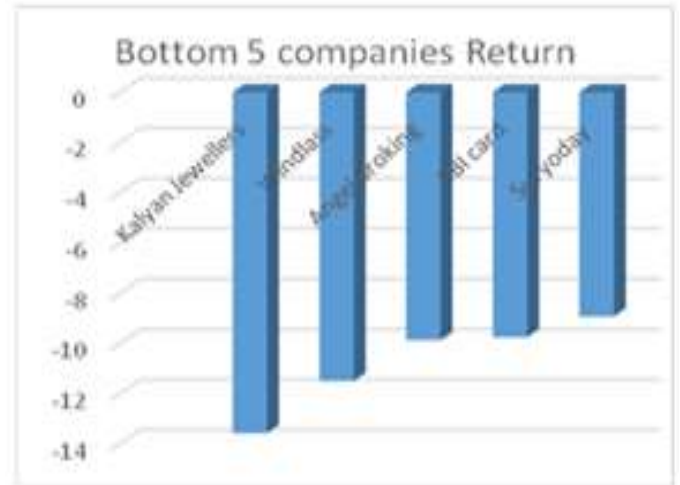
Thirty IPOs are available, however seventeen of them are priced too high. Some examples are IRCTC, KIMS, Rossari Biotech, Route Mobile, GLS, Burger King, G R Infraprojects, and Shyam Metalics. Others are Clean Science, Dodla Dairy, Home First, Indigo Paints, Laxmi Organic, Rollex Rings, Tatva Chintan, Zomato, Happiest Mind, and IRCTC.



Anupam Rasayan, Craftsman, Iodha, Nureca Ltd, Suryoday Small Finance Bank, Angel Broking, CAMS, Exxaro Tiles, Prince Pipes, RVNL, SBI Card, Windlass, and Kalyan Jewelers are just some of the 13 IPOs that are cheaper than their competitors. That implies future price hikes are to be anticipated because the existing market price is not supported by the company's profitability or financial stability.

RETURN ANALYSIS

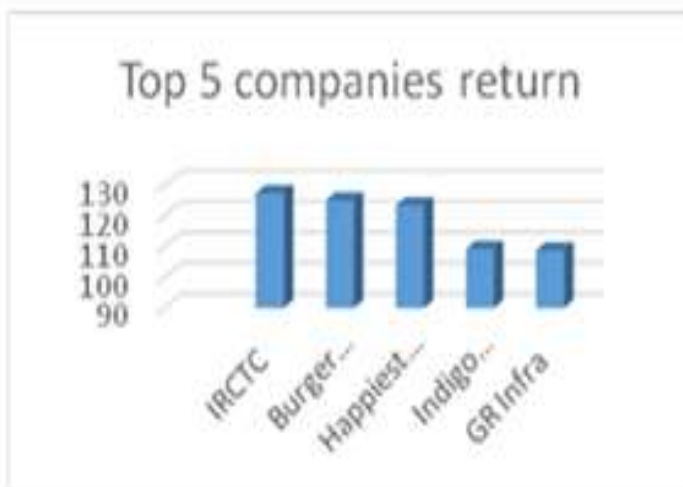
Top 5 companies return	
Name	Return
IRCTC	127.4219
BURGER KING	125
HAPPIEST MIND	123.4639
INDIGO PAINTS	109.2047
GR INFRA	108.7336
Bottom 5 companies Return	
Name	Return
KALYAN JEWELLERS	-13.5632
WINDLASS	-11.4891
ANGEL BROKING	-9.86928
SBI CARD	-9.74834
SURYODAY	-8.91803

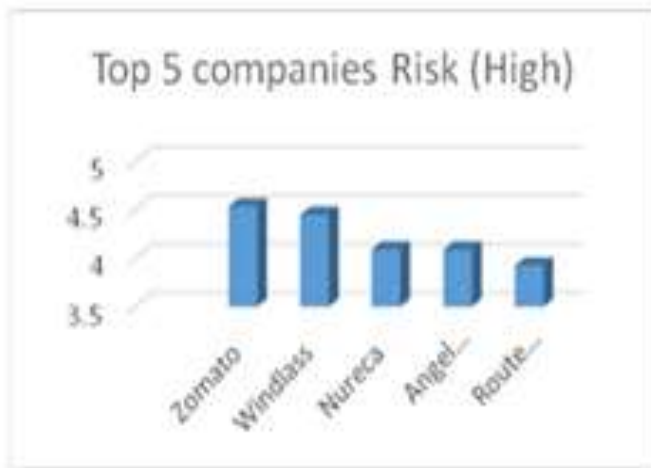


The data shown above shows that the top five IPOs (IRCTC, Burger King Ltd, Happiest Mind, Indigo Paints, G R Infraprojects Ltd.) achieved a far higher return on investment (ROI) than the average IPO. This is evidence that IPOs have been fruitful. When compared to other IPOs, IRCTC has the greatest ROI, at 127.522. The return on Suryoday Small Finance Bank's IPO was lower than average (-8.918).

RISK ANALYSIS

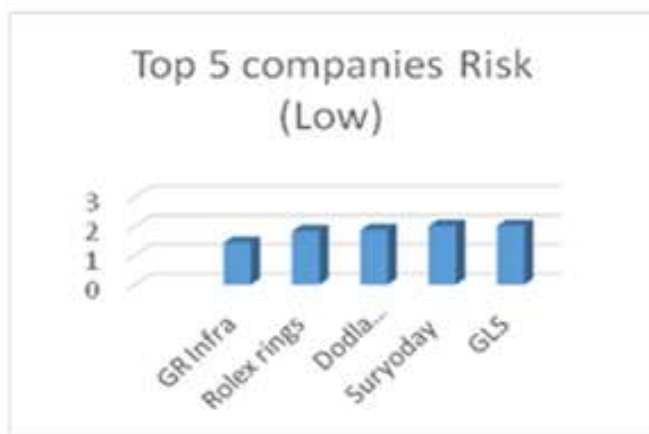
Top 5 companies Risk (High)	
Name	Risk
ZOMATO	4.53592
WINDLASS	4.447505
NURECA	4.091139
ANGEL BROKING	4.088561
ROUTE MOBILE	3.925301





RISK ANALYSIS

TOP 5 COMPANIES RISK (LOW)	
NAME	RISK
GR INFRA	1.438694
ROLEX RINGS	1.831271
DODLA DAIRY	1.867856
SURYODAY	2.010429
GLS	2.012477



According to the data, the five most successful initial public offerings (Zomato Ltd, Windlass biotech ltd, Nureca ltd, Angel Broking ltd, Route Mobile ltd) are riskier than average. This information suggests that the top five IPOs are faring better than average. When compared to other IPOs, Zomato has an exceptionally high

standard deviation of risk (4.5352). G R Infra-projects, Rolex rings, Dodla dairy, Suryoday small finance bank, and Glenmark Life Science appear to be the safest IPOs based on the information presented. G R Infra-projects Ltd's first public offering (IPO) carries less risk than the typical IPO (1.438669).

5. CONCLUSION

Investing in India is now essential to one's safety rather than a luxury. When interest rates fall, investors look elsewhere for potential gains. The general public has developed a greater tolerance for risk and is actively looking for substitutes. Customers now have the ability to easily try out several service providers thanks to technological advancements. Attending an initial public offering (IPO) could be a great learning experience for the average person interested in the financial system. By studying the economy and the track records of potential investments, investors may make safe bets.

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