Educational Administration: Theory and Practice
2024,30(4), 606-613
ISSN:2148-2403
https://kuey.net/

Research Article

A Study on Short Term Performance of Initial Public Offerings (IPOS) Issued During 2021-22 And 2022-23

Dr. Y. Suneetha*, Dr. G. Latha

***Corresponding Author:** Dr. Y. Suneetha

Citation: Dr. Y. Suneetha, Dr. G. Latha (2024), A Study on Short Term Performance of Initial Public Offerings (IPOS) Issued During 2021-22 And 2022-23, *Educational Administration: Theory and Practice*, *30*(4), 606-613,
Doi: 10.53555/kuey.v30i4.1517

ARTICLE INFO

ABSTRACT

This study delves into the growth and success of Initial Public Offerings (IPOs) launched by companies between 2021-22 and 2022-23. The analysis primarily focuses on assessing the performance of IPOs through basic returns and market-adjusted returns over three distinct time frames: the listing day, 30 days post-listing, and 90 days post-listing. Statistical techniques such as paired t-tests and ANOVA were employed to scrutinize the obtained results.

The findings of the study indicate a significant level of under pricing observed on the listing day, followed by a subsequent reversal of this trend. As time progressed, gains diminished, ultimately leading to a situation where shares were overpriced. This progression highlights the dynamic nature of IPO pricing and underscores the complexities inherent in equity financing.

Keywords: IPOs, Equity Financing, Market Adjusted Returns, Raw Returns

Introduction:

Initial Public Offerings (IPOs) represent a critical milestone for companies seeking to raise capital and transition from private to public ownership. An IPO occurs when a company offers its shares to the public for the first time, thereby becoming listed on a stock exchange. This process enables companies to access a broader investor base, raise significant capital, enhance their visibility, and facilitate future growth opportunities. IPOs play a pivotal role in the financial markets, serving as a mechanism for companies to obtain funding for expansion, acquisitions, and innovation.

The significance of IPOs extends beyond the individual companies involved; they also have broader implications for investors, market participants, and the economy as a whole. For investors, IPOs represent opportunities to invest in promising companies at an early stage of their growth trajectory. IPOs often attract significant attention from investors seeking potential high returns, as newly listed companies may experience rapid price appreciation in the initial trading period.

Understanding the short-term performance of IPOs is crucial for various stakeholders, including investors, issuers, underwriters, and regulatory authorities. Studying the short-term performance of IPOs provides valuable insights into market dynamics, investor behavior, and the efficiency of the IPO pricing mechanism. By analyzing IPO underpricing, initial returns, and factors influencing short-term performance, stakeholders can assess the attractiveness of IPO investments, evaluate the effectiveness of underwriting practices, and identify trends in IPO market activity. This paper focuses on the IPOs, which went on board from 2021-2022

Literature Review:

Dr. P. Roopa and Mrs. P. Nishitha In their article titled "An Analysis On Short Run Performance Of IPOs Issued During 2020-2022" (2023), analyze the short-term performance of Initial Public Offerings (IPOs) from 2020 to 2022. Their research examines underpricing dynamics and subsequent market adjustments, revealing a surge in IPO activity despite global economic challenges. The findings highlight significant underpricing on listing days, followed by diminishing gains over time, suggesting potential overpricing. They emphasize the necessity of pricing band adjustments to counter underpricing and improve price discovery. Additionally, regulatory changes by SEBI are discussed, focusing on transparency enhancements and addressing underpricing concerns. These insights provide valuable implications for investors, regulators, and businesses, enhancing understanding of IPO dynamics.

The COVID-19 pandemic's effects on initial public offerings (IPOs) are examined in detail in the paper by Roopa, P., & Shankar, K. U. G. (2023), with a special emphasis on SMEs and Mainboard IPOs. It concludes that both kinds of IPOs did well in spite of the erratic market, with Mainboard IPOs raising noticeably more money. Mainboard initial public offerings (IPOs) mostly employed book building, whereas SME IPOs adhered to fixed pricing and favored listing on the BSE SME platform. Subscription delays were found to be a significant factor in determining underpricing for both Mainboard and SME IPOs, surpassing other characteristics such as firm age and market return.

Sreenu, N., Pradhan, A. K., Xuan, V. V., and Naik, B. K. R. (2022) investigated the impact of accounting conservatism on IPO underpricing in India, while considering the role of information asymmetry. Their study, which focused on 527 firms that went public through IPOs on national stock exchanges between 2000 and 2020, revealed a significant relationship between accounting conservatism and lower IPO underpricing. This association was observed through regression analysis and various methodological tests, with heightened significance in the presence of high information asymmetry. The study's original contribution lies in shedding light on the drivers of IPO underpricing and the influence of accounting conservatism within the Indian context. Additionally, it provides evidence of how legal origin, associated with conservatism, influences the underpricing-conservatism relationship. These findings have implications for stakeholders and supervisors concerned with IPO pricing dynamics.

Ellikkal, A., Rajamohan, S., and Prakash, M. O. (2022) delve into the impact of the COVID-19 pandemic on the Indian stock market, with a specific focus on Initial Public Offerings (IPOs). Acknowledging the pandemic's widespread effects on the global economy and India, the study notes the adverse impact on various industries and the stock market. Despite significant drops in the Nifty and Sensex indices in 2020, a resurgence was observed in 2021, marked by a remarkable $1.2 trillion generated through IPOs. Notably, despite challenging conditions, 66 IPOs were listed on the Indian stock exchange during this period. The study aims to evaluate the performance of these IPOs on their listing day and their current status, providing valuable insights for newcomers to trading and researchers, aiding their comprehension of the IPO listing process and its underlying dynamics.

Srivastava, H., Solomon, P., and Singh, S. P. (2022) investigated IPO oversubscription in small and medium firms (SMEs). The study aimed to uncover the factors contributing to oversubscription. Employing OLS and quantile regression models, the research evaluated its hypotheses using data from 431 SME IPOs listed on NSE EMERGE and BSE SME platforms between February 2012 and January 2020. Results indicated that issue size, issue price, pricing mechanism, and listing delay had a negative impact on oversubscription, whereas firm size and underpricing positively influenced it. The report's findings provide valuable insights for stock market investors, advisors, and regulators, suggesting key variables to consider when investing in SME IPOs and aiding regulatory bodies like SEBI in formulating regulations for SME IPOs. Additionally, the data suggested that SMEs tend to conduct IPOs when purchasers seek to maximize returns and expansion. The study also conducted a comprehensive review of IPO literature focusing on the period subsequent to the launch of India's SME trading platform in 2012.
Rajamadagu, S., and M. S., A. (2022) present a study centered on Initial Public Offerings (IPOs) as a primary avenue for private companies to secure funds. The research underscores the attractiveness of IPOs to investors owing to their tendency for underpricing and the promise of future returns. Analyzing data from 144 IPOs listed on the Bombay Stock Exchange (BSE) in India spanning from 2014 to 2020, the study employs various metrics such as raw returns, market-adjusted excess return (MAER), annualized returns, and wealth-relative tools for comprehensive analysis. The findings corroborate the prevailing notion that IPOs in India are indeed underpriced, consistent with extant empirical evidence. Over a 12-month period, raw returns demonstrate a surge ranging from 18.09% to 48.83%, indicative of wealth accumulation for stakeholders. Furthermore, the wealth relative model is employed to assess IPO performance relative to the market, revealing sustained outperformance and underpricing across all years scrutinized.

Ashish Kumar Suri and Bhupendra Hada (2018) assessed 107 initial public offerings (IPOs) launched between June 2011 and June 2017, focusing on two performance metrics: oversubscription and listing day gains. The study compared IPO performance across two distinct timeframes: June 2014 to June 2017 and January 2011 to May 2014. Their findings revealed that IPOs launched between June 2014 and June 2017 exhibited significantly superior performance compared to those launched between May 2011 and May 2014. Additionally, the study examined the amount of capital raised through IPOs and the number of IPOs during each period.

Tanted N and Mustafa S in their research article titled "A Study of Returns Between IPO Issue Price and Listing Day Price" (2019), conducted a study aimed at determining the variance in returns among the IPO offer price, listing day opening price, and closing price. The objective was to assist investors in making informed decisions regarding whether to invest in a security through an initial public offering (IPO) or directly from the secondary market. Data encompassing all IPOs released over a decade was reviewed for analysis. The study concluded that there existed no statistically significant difference between the IPO offer price, the opening price on listing

day, and the closing price on listing day. It was noted that the median price on the listing day opening was higher than that of the IPO. Additionally, the mean value for the closing price was higher when compared to the opening price on the listing day. Moreover, instances of IPOs offering higher prices were associated with correspondingly higher mean values for the closing price on the listing day.

Roopa, P. (2016) studied IPO pricing patterns in the Indian capital market between 2005 and 2009. She examined how investors perceived the book building technique in initial public offerings as well. The study revealed a noteworthy shift in market dynamics and investor preferences towards the pricing of public issues through book building, indicating a considerable movement towards its adoption throughout the reviewed period.

Need of the Study:

The examination of IPO activity during the years 2021-2022 holds significant professional importance across various sectors of the financial realm. It provides investors with crucial insights into the nuanced dynamics of IPO performance, aiding in informed decision-making regarding investment strategies and risk management. For companies navigating the IPO process, the study offers strategic guidance by illuminating market behaviors and investor sentiments prevalent during the specified period, enabling them to optimize timing, pricing, and structuring of offerings for enhanced market reception. Regulators benefit from empirical evidence to evaluate existing regulatory frameworks, refine policies, and bolster investor protection mechanisms, thus fostering market transparency and integrity. Furthermore, the study enriches academic discourse by contributing empirical insights specific to the 2021-2022 period, advancing scholarly understanding of IPO dynamics and laying the groundwork for future research endeavors. In essence, the examination of IPOs during 2021-2022 serves as a pivotal resource, facilitating informed decision-making, regulatory oversight, and academic inquiry, ultimately contributing to the resilience and efficiency of the financial ecosystem.

Objectives of the study:

- To conduct a comprehensive analysis of the performance of Initial Public Offerings (IPOs) issued during the designated timeframe, assessing factors such as initial pricing, market reception, and post-listing performance.
- To quantify the degree of underpricing observed in IPOs, specifically focusing on the discrepancy between the offer price and the stock's opening price on the listing day.
- To ascertain the persistence of underpricing in the short term, by examining the stock performance of IPOs one month and three months following their listing on the stock market.
- To assess the impact of market conditions on IPO returns by comparing the mean returns of IPOs before and after adjusting for market index fluctuations.
- To analyze potential variations in mean returns and market-adjusted returns of IPOs at different intervals, including the day of listing, one month post-listing, and three months post-listing, aiming to identify any significant differences in performance over time.

Factors influencing IPO initial returns

Factors influencing IPO initial returns encompass market conditions, company fundamentals, and investor sentiment. Market conditions play a pivotal role, with IPOs experiencing higher initial returns during bullish markets due to heightened investor optimism and demand. Conversely, in bearish markets, IPOs may see lower initial returns as investor caution prevails. Company fundamentals, including growth potential, financial performance, and industry prospects, significantly influence investor perception. Companies with robust fundamentals and promising growth trajectories often command higher initial returns as investors perceive them as attractive investment opportunities. Additionally, investor sentiment and demand play a crucial role, with positive sentiment and strong investor demand driving up initial returns, while negative sentiment can lead to subdued initial performance.

Moreover, underpricing strategies, where IPO offer prices are set below market value, are commonly employed to stimulate investor interest and participation. Underpriced IPOs often generate higher initial returns as investors seek quick gains from the perceived undervaluation. Regulatory factors also impact IPO initial returns, with changes in listing requirements or disclosure standards influencing investor perception and demand. Understanding these multifaceted factors is vital for investors, issuers, and regulators to navigate the complexities of the IPO market effectively, ensuring informed decision-making and sustainable market practices.

Hypothesis:

H1: The mean returns of IPOs show a notable distinction before and after adjusting for market index fluctuations.

H2: Raw returns vary significantly across four distinct time periods: on the day of listing, one month after listing, three months after listing and six months after listing.
H3: Market-adjusted returns exhibit notable differences across specific time intervals: on the day of listing, one month after listing, three months after listing and six months after listing.

Research Methodology:

The study relied solely on secondary data, gathered from various websites including nseindia.com, bseindia.com, and Chittorgarh.com, as well as pertinent reports.

Period of Study: The analysis spanned the financial years 2021-22 and 2022-23, encompassing all IPOs issued and listed on either NSE or BSE or both. To gauge the extent of deviations in stock market prices from their offer prices, returns were calculated and adjusted using NIFTY 50 INDEX returns for the respective periods. Short-term performance and under pricing of IPOs were evaluated using data collected one month, three months, and six months post-issue. In cases where share prices were unavailable, the nearest available closing date price was utilized for calculations.

Tools used in the Study:

The data underwent further analysis facilitated by statistical software, where ANOVA and paired t-tests served as the primary statistical methodologies employed in the study.

Limitations of the Study:

- The study was restricted to a two-year timeframe.
- Only a six-month performance evaluation period was considered, potentially overlooking positive developments beyond this period.
- Solely NSE & BSE listed equity shares were included in the research.
- NIFTY 50 was the only index utilized for measuring market adjusted returns.

Data analysis:

Table-1 : Issue Size and Number of IPOs Issues in India during 2021-23

YEARS	No. of IPOs	Issue Size (in Cr)
2021-22	65	131416.79
2022-23	41	63059.49

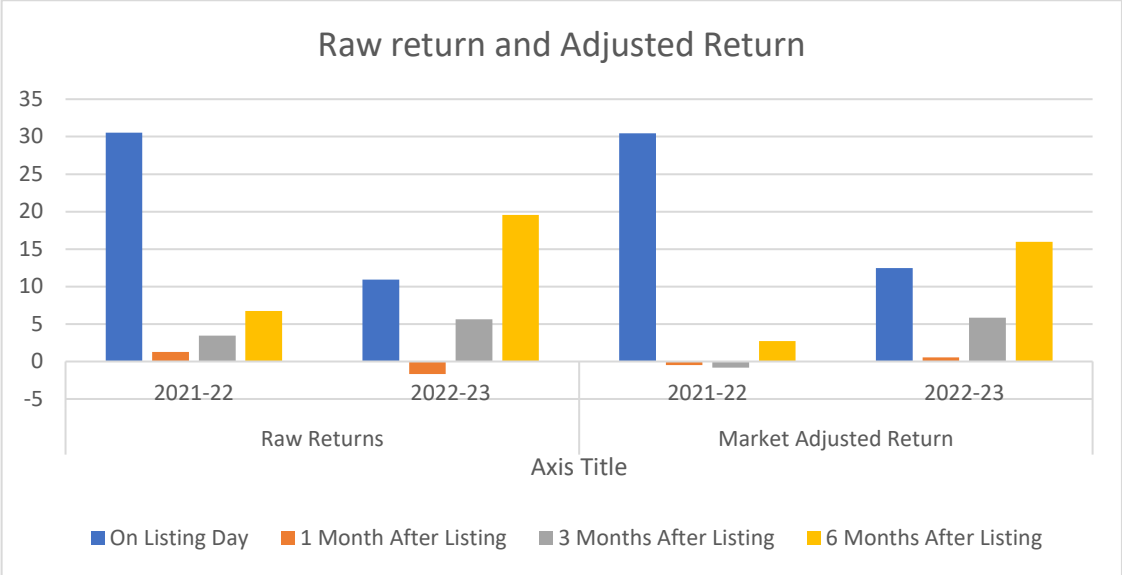
From the above table it is evident that no. of IPOs issued during 2021 is more compared to 2022. It has been decreased by 37%

Table -2 : Results of Average Raw Returns and Average Market Adjusted Returns on the Listing Day, 1 Month After Listing , 3 Month after listing and 6 Months After Listing

Particulars	**Raw Returns**		**Market Adjusted Return**	
	2021-22	**2022-23**	**2021-22**	**2022-23**
On Listing Day	30.531	10.927	30.4675	12.444
1 Month After Listing	1.2847	-1.653	-0.460527	0.552
3 Months After Listing	3.4512	5.6122	-0.81497	5.85475
6 Months After Listing	6.7455	19.550	2.727931	15.9731

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

Graph I- Showing Average Raw Returns and Average Market Adjusted Returns on the Listing day, 1 Month, 3 Months and 6 Months After Listing



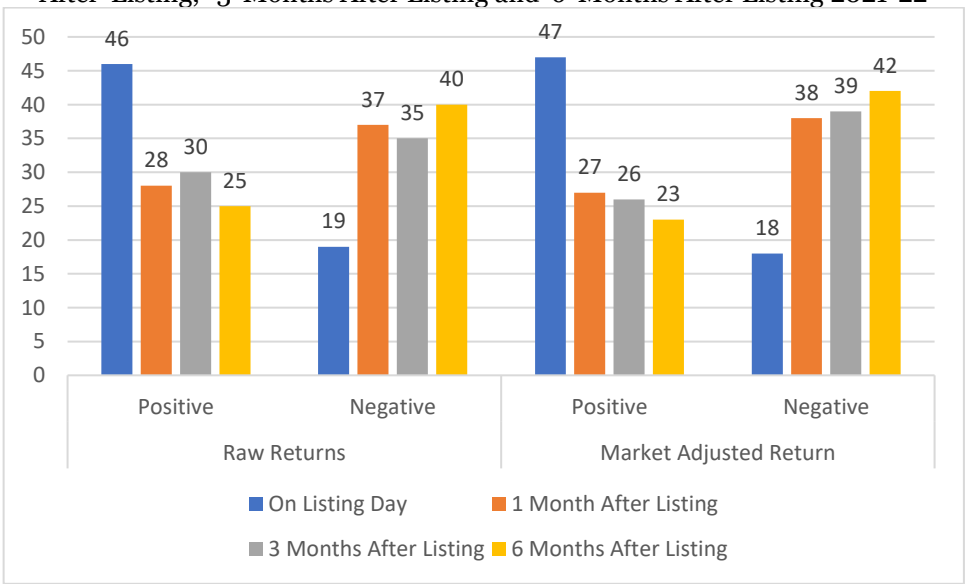
The table presents IPO raw and market-adjusted returns for 2021-22 and 2022-23 across different time intervals. IPOs in 2021-22 show higher raw returns on the listing day, while those in 2022-23 exhibit better market-adjusted returns, indicating positive adjustment to market conditions. Subsequent intervals display mixed fluctuations, with IPOs in 2022-23 generally performing relatively better compared to 2021-22. This underscores the significance of market-adjusted returns in assessing IPO performance accurately vis-à-vis broader market trends.

Table 3- Results of Number of IPOs with Positive and Negative Returns on the Listing Day, 1 Month After Listing, 3 Months After Listing and 6 Months After Listing 2021-22

Particulars	**Raw Returns**		**Market Adjusted Return**	
	Positive	**Negative**	**Positive**	**Negative**
On Listing Day	46	19	47	18
1 Month After Listing	28	37	27	38
3 Months After Listing	30	35	26	39
6 Months After Listing	25	40	23	42

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

Graph II- Showing Number of IPOs with Positive and Negative Returns on the Listing Day, 1 Month After Listing, 3 Months After Listing and 6 Months After Listing 2021-22



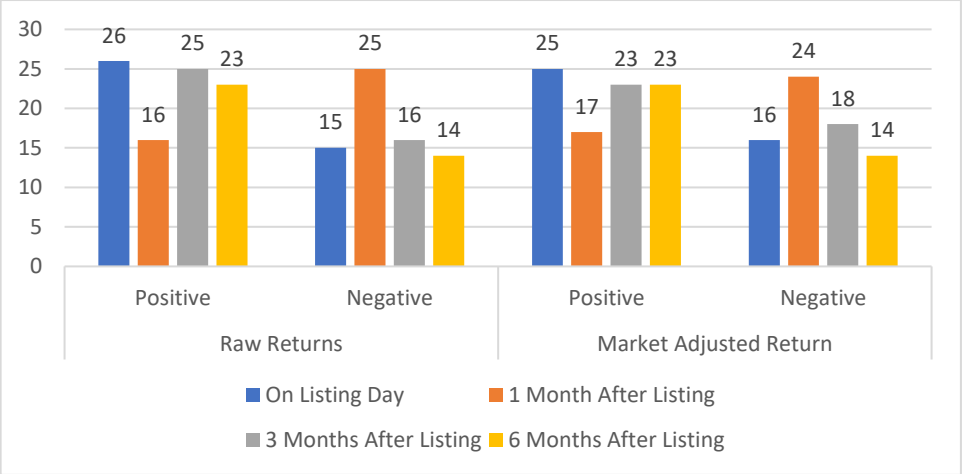
The above table and graph illustrates the distribution of positive and negative raw returns compared to market-adjusted returns across different timeframes following the listing of an investment. Initially, on the listing day, there's a slightly higher proportion of positive returns in both raw and market-adjusted terms, indicating a favorable initial market response. However, one month after listing, a decrease in positive returns is observed, particularly in market-adjusted terms. Three months after listing, despite a marginal increase in positive raw returns, market-adjusted returns exhibit a decline, suggesting challenges in sustaining positive performance. Notably, six months after listing, both raw and market-adjusted returns see a decrease in positive returns, emphasizing the need for continuous monitoring of investment performance and market conditions over time.

Table 4- Results of Number of IPOs with Positive and Negative Returns on the Listing Day, 1 Month After Listing, 3 Months After Listing and 6 Months After Listing 2022-23

Particulars	Raw Returns		Market Adjusted Return	
	Positive	Negative	Positive	Negative
On Listing Day	26	15	25	16
1 Month After Listing	16	25	17	24
3 Months After Listing	25	16	23	18
6 Months After Listing	23	14	23	14

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

Graph III- Showing Number of IPOs with Positive and Negative Returns on the Listing Day, 1 Month After Listing, 3 Months After Listing and 6 Months After Listing 2022-23



The data depicts the distribution of positive and negative raw returns alongside market-adjusted returns across various timeframes following the listing of an investment. Initially, on the listing day, there's a slightly higher proportion of positive returns in both raw and market-adjusted terms, indicating a favorable initial market response. However, one month after listing, there is a decrease in positive returns, particularly evident in raw returns. Despite fluctuations, three months after listing, a relatively balanced distribution between positive and negative returns is observed, with market adjustments playing a role in moderating returns. Notably, six months after listing, there's a consistent distribution of positive returns across both raw and market-adjusted terms, suggesting stabilization in investment performance over time. Overall, the data suggests fluctuations in returns over different timeframes, underscoring the importance of continuous monitoring and analysis of investment performance in response to market dynamics.

H1: The mean returns of IPOs show a notable distinction before and after adjusting for market index fluctuations.

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

	Raw Return	Market Adjusted Return
Mean	10.50333318	10.47809989
Variance	1892.31637	1890.284069
Pearson Correlation	**0.999998782**	
Hypothesized Mean Difference	0	
Df	259	
t Stat	5.66835079	
P(T<=t) two-tail	**0.000000038**	
t Critical two-tail	1.969165556	

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

From the above table it is inferred that 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 (0.99) 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(0.0000000038) was less than the significance level of 0.05, indicating that hypothesis **H_1** could be accepted i.e Null hypothesis is rejected.

H2: Raw returns vary significantly across four distinct time periods: on the day of listing, one month after listing, three months after listing and six months after listing.

Table-5: Results of ANOVA – Raw Returns on the Listing Day, 1 Month after Listing, 3 Months after Listing and 6 Months after Listing

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	35748.82	3	11916.27	6.713967	**0.000223**	2.639863
Within Groups	454361.12	256	1774.848			
Total	490109.94	259				

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

From the above table, ANOVA analysis, aimed at assessing changes in mean raw returns across four study periods (day of listing, one month after listing, three months after listing and six months after listing), yielded significant results. With a p-value below the predetermined significance level of 0.05, the findings supported the acceptance of hypothesis H2. This suggests that there was a substantial change in mean raw returns over the specified study periods. Such findings underscore the dynamic nature of investment performance over time and highlight the importance of considering temporal factors when evaluating investment outcomes.

H3: Market-adjusted returns exhibit notable differences across specific time intervals: on the day of listing, one month after listing, three months after listing and six months after listing.

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

Source of Variation	**SS**	**Df**	**MS**	**F**	**P-value**	**F crit**
Between Groups	35826.87	3	11942.29	6.737589	**0.000216**	2.639863
Within Groups	453756.7	256	1772.487			
Total	489583.6	259				

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

From the above table, ANOVA results for market-adjusted returns across different timeframes indicate significant variation, as evidenced by the sum of squares (SS), degrees of freedom (Df), and mean square (MS) values. The calculated F-statistic exceeds the critical F-value at a significance level of 0.05, with a low p-value of 0.000216. This suggests strong evidence against the null hypothesis, indicating that there is substantial variation in mean market-adjusted returns over the specified study periods. These findings emphasize the dynamic nature of market-adjusted returns and underscore the importance of considering temporal factors when evaluating investment performance. Hence, H3 is Accepted.

Findings:

- In 2021, 20 IPOs were deemed overpriced while 44 were underpriced; similarly, in 2022, 15 IPOs were overpriced and 26 underpriced.
- Analysis of raw returns adjusted to market returns revealed varying IPO performances, with some yielding positive returns and others negative. This adjustment serves as a valuable metric for assessing IPO performance amidst market fluctuations.
- Notably, IPOs in 2021 raised a total of 131416.79Cr, whereas those in 2022 amounted to 63059.49Cr, reflecting a decrease of approximately 68357.3Cr.
- This underscores the significant impact of market returns on IPO raw returns, wherein adjustments sometimes yield positive results despite overall market fluctuations.

Suggestions:

In the process of book building for IPOs, understanding market dynamics is crucial to mitigate the issues of overpricing and underpricing. Proper analysis by the issuer can alleviate these concerns to some extent. It's essential to establish a well-calibrated price range, encompassing both a ceiling (maximum price) and a floor (minimum price), to enable investors to make informed decisions based on their analysis. Ideally, the difference

between the ceiling and floor prices should not exceed 20%, ensuring an effective price band setting. However, some issuers fail to adhere to this guideline, resulting in price bands with minimal differences of only 1-5 rupees. This undermines the core objective of book building, which is price discovery. Thus, issuers are urged to reconsider their price bands to achieve the true purpose of the book building process.

Conclusion:

The research underscores the pivotal role of Initial Public Offerings (IPOs) in facilitating opportunities for company expansion and growth, particularly in emerging markets like India. IPOs not only provide avenues for companies to raise capital but also foster employment opportunities and economic development. The performance of IPOs holds significant importance, as it directly impacts investor interest and market dynamics. Overpriced IPOs risk dampening investor enthusiasm, while underpriced ones may lead to oversubscription, yet they often yield favorable returns. The study highlights that in 2021, certain underpriced IPOs outperformed expectations in the subsequent three and six-month periods. Consequently, the effective functioning of IPOs is crucial for fostering economic growth and achieving overall development goals in any country.

References:

1. Roopa, P., & Shankar, K. U. G. (2023). A Comparative Study on Stock Market Performance of Sme Ipos and Mainboard Ipos Issued During Covid 19 Pandemic in India. *RES MILITARIS*, *13*(2), 3882-3891.
2. Roopa, P., & Nishitha, P. (2023). An analysis on short run performance of ipos issued during 2020-22. *SMART Journal of Business Management Studies*, *19*(2), 40-48.
3. Sreenu, N., Pradhan, A. K., Xuan, V. V., & Naik, B. K. R. (2022). Impact of accounting conservatism on IPO under-pricing: evidence from India. *Cogent Economics & Finance*, *10*(1). https://doi.org/10.1080/23322039.2022.2132641
4. SEEPANI, Jyothi; MURTHY, K. V. R.. INITIAL PUBLIC OFFERINGS IN INDIA – A STRUCTURAL REVIEW. **European Journal of Economic and Financial Research**, [S.l.], v. 7, n. 4, oct. 2023. ISSN 25019430. Available at: <https://oapub.org/soc/index.php/EJEFR/article/view/1581>. Date accessed: 07 apr. 2024. doi:http://dx.doi.org/10.46827/ejefr.v7i4.1581.
5. Tanted, N., & Mustafa, S. (2019). A study of returns between IPO issue price and listing day price (listing gains). AAYAM: AKGIM Journal of Management, 9(2), 34-Retrieved from https://lavasalibrary.remotexs.in/scholarly-journals/study-returnsbetween-ipo-issue-price-listing-day/docview/2389738867/se2?accountid=38885
6. Ashish Kumar Suri and Dr.Bhupendra Hada (2018). Performance analysis of Initial public offerings in India. GITAM journal of Management, 0972-740X, ZDB-ID 2813773-5. - Vol. 16.2018, 2, p. 86-99.
7. Roopa, P. (2016). *Book Building Methods of Public issues in India*. Archers & Elevators Publishing House.
8. https://www.bseindia.com/publicissue.html
9. 2) https://www.moneycontrol.com/ipo/
10. 3) https://www.chittorgarh.com/report/list-of-ipo-by-year-fund-raised-success-mainboard/85/