

# A STUDY ON INITIAL PUBLIC OFFER WITH REFERENCE TO HDFC

<sup>1</sup>MUKKERA GOUTHAMI, <sup>2</sup>Dr. D. SATHISH KUMAR

<sup>1</sup>MBA STUDENT, <sup>2</sup>ASSISTANT PROFESSOR

DEPARTMENT OF MBA

*Sree Chaitanya College of Engineering, KARIMNAGAR*

## ABSTRACT

An IPO (initial public offering) is referred to a flotation, which an issuer or a company proposes to the public in the form of ordinary stock or shares. They are generally offered by new and medium sized firms looking for funds to grow. However, it can be done by big privately-owned firms seeking to transform themselves into an openly traded firm.

The government of India has been playing proactive role in the real estate market by the commencement of the In an IPO the company may procure the support of the countersigned enterprise, which assists in establishing what kind of security to issue, competitive offering cost and the period in which it should be launched in market. An IPO can be an unsafe venture for it is tough for an investor to predict how the stock or share will perform on its first trading day and afterwards. Moreover, the historical information available with the company is not sufficient enough to analyze the performance of the stock in Indian market.

Most IPOs are of the firms that are undergoing through momentary growth duration, and they are hence entitled to auxiliary vagueness related to their future performance. While IPOs are effectual at raising revenues, being cataloged at a stock exchange demands immense authoritarian observance and treatment needs.

The Initial Public Offering assumes that the firm is a significant market presence, is flourishing and has the obligatory past record to raise assets in public equity market. If the firm later trades

recently tendered shares once again to the equity market, it is known as seasoned equity offering. When an investor trades shares, it is referred to as secondary offering and the investor and not the firm that has initially proposed the shares, maintains the advances of the offering. These phases are usually perplexes and only a firm which proposes a share can indulge in chief offering or the IPOs. Secondary offering takes place in a secondary equity market, where investors and not the firm purchase and trade from one another.

## 1. INTRODUCTION

Initial Public Offer (IPO), is the **first sale of shares** by the privately owned company to the public. The companies going public raises funds through IPO's for working capital, debt repayment, acquisitions, and a host of other uses.

Investor can apply for **IPO Stocks** by filling an IPO Application Form. These forms are usually available with stock brokers for free. Investor can also apply for IPO Stocks online through Online Stock Brokers like ICICI bank, Share Khan, and Reliance Money.

Chittorgarh.com, India's No. 1 IPO investment portal provide recent IPO information from primary stock market. IPO Tools available on this website includes **IPO Allotment Status**, **IPO Bidding Information**, **IPO Ratings**, **IPO Grading**, **IPO Reviews**, **Grey Market Premiums** of IPO's, **IPO News** and **IPO Performance Tracker**.

In an IPO the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market.

An IPO can be a risky investment. For the individual investor it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value.

Capital market is an essential pre-requested for industrial and commercial development of a country. Capital market refers to the institutional arrangement which facilitates the borrowings and lending of long term fund. In capital market we can divided into two parts they are primary and secondary market. In primary market also known as new issue market. It represents primary market where new securities i.e. shares or bonds that have never been previously offered. The importance of this study is analyzing the IPO scrip's during the year 2006 to 2010. This study based on differences of Issue price and LTP. In order to whether the IPO's are overpriced or under priced. The investor how get the gain or loss. The study continued based on the only 2 parameters they are Issue price and LTP. The differences of LTP & Issue price we can describe the scrip is overpriced or under priced. Not other parameters considered. This study shows that sector wise scrip's are overpriced or under priced.

In this study find the IPO how gives the benefits and given the guidelines and suggestions to the investor. Before selecting a company the investor should think about the company. A good investor should diversify and reduces his risk by investing in different

securities. Primary market returns are very attractive in short period especially on the day of listing. But investor in IPO's should take wise decision in choosing the best company.

#### **SCOPE OF THE STUDY:**

- 1) The study covers only NSE listed securities of primary market.
- 2) Only LTP and Issue price are taken into consideration for judging whether the scrip's are under priced or over priced not considering other parameters.
- 3) The study covers the period from year 2006-2018 only
- 4) Study covers randomly selected scrip's under various sectors.

#### **2. OBJECTIVES THE STUDY:**

1. The objective of doing this project is mainly to make a study of trends in primary market from 2006-2018 with special reference to LTP (Last Traded Price) and Issue Price.
2. To examine the difference between LTP and Issue Price of various scraps in different sectors.
3. To assess whether the Issue Price are over priced or under priced based on difference between LTP and Issue Price.
4. To examine gain or loss to the investor based on the above study.

#### **3. METHODOLOGY OF THE STUDY:**

The data collection methods include both primary and secondary collection methods.

**Primary Data:** This method includes the data collected from the personal interaction with authorized members of HDFC.

**Secondary Data:** The secondary data collection method includes:

The lecturers delivered by the superintendents of respective departments.

The brochures and material provided by HDFC.

The data collected from the magazines of the NSE, economic times, NSE website, etc.

Various books relating to the investments, capital market and other related topics.

#### **TOOLS USED FOR ANALYSIS:**

1) **TABULATION:** A Table is a systematic arrangement of statistical data in rows and columns. Rows are horizontal arrangements whereas columns are vertical. Tabulation is a systematic presentation of data in a form suitable for analysis and interpretation.

The tables used are as follows:

- a) **One way table:** It presents only one characteristic and hence in answering one or more independent questions with regard to those characteristics.
- b) **Two-way table:** It contains sub divisions of a total and is able to answer two mutually dependent questions.

2) **DIAGRAMATIC AND GRAPHICAL REPRESENTATION OF DATA:** A picture is worth a thousand words. The impression created by a picture has much greater impact than any amount of detailed explanation. Statistical data can be effectively presented in the form of diagrams and graphs. Graphs and Diagrams make complex data simple and easily understandable. They help to compare related data and bring out subtle data with amazing clarity.

The Diagram used are as follows:

- a) **Bar diagrams:** Bar diagrams are used specifically for categorical data or series. They consist of the group of equi-distant rectangles, one for each group or category of data in which the

values of magnitudes are represented by length or height of rectangles.

- b) **Sample Bar diagram:** It is used of comparative study of two or more aspects of a single variable or single category of data.

#### **LIMITATIONS OF THE STUDY:**

A good report sells the results of the study. But every project has its own limitations. These limitations can be in terms of

1) The project doesn't study the whole primary market due to time availability and course requirement.

2) Project doesn't consider whole issues under each sector due to time limitation. It takes Into consideration randomly selected issues

3) Limited to a particular period: Data under consideration is taken from 2006-2018 Previous years are not taken into consideration.

4) Partial fulfillment: Project studied doesn't fulfill all requirements because it does not study the whole primary market due to time availability and course Requirement. It only fulfills the partial requirement as it studies only certain Important aspects of primary market.

5) Approximate results: The results are approximated, as no accurate data is Available.

6) Study takes into consideration only LTP and issue prices and their difference for Concluding whether an issue is overpriced or under priced leaving other.

7) The study is based on the issues that are listed on NSE only.

#### 4. INITIAL PUBLIC OFFERING

IPO is an acronym for initial public offering. This is the first sale of stock by a company to the public. A company can raise money by issuing either debt or equity. If the company has never issued equity to the public, it is known as an IPO. Corporate may raise capital in the primary market by way of an IPO, right issue or private placement.

Companies fall into two broad categories private and public. A privately held company has fewer shareholders. Anybody can come out and incorporate a private company, put in some money file the right legal documents and follow the reporting rules. Most small businesses are privately held, but large companies can be private too. IKEA, Domino's pizza and Hallmark cards are all privately held. It usually is not possible to buy shares in private company. The shares of private company are not offered to general public.

On the other hand public companies can sold at least a portion of themselves to the public and trade on stock exchange. This is why doing an IPO is also referred to as going public. Public companies have thousands of share holders and are subjected to strict rules and regulations.

#### METHODS OF FLOATING NEW ISSUES:

The various methods which are used in floatation of new securities in the new issue market are

- 1) Public Issue / Offer through Prospectus
- 2) Offer for sale
- 3) Private Placement
- 4) Right Issues
- 5) Stock Exchange Pricing
- 6) Subscription by inside coteries

- 1) **PUBLIC ISSUES:** This is the most common method followed by joint stock companies to raise capital through the issue of new securities. Under this method, the issuing company directly offers to the general public or institutions a fixed number of shares at a stated price through a document called prospectus.

The purpose of raising the new capital is to finance some capital expenditure, it is usual for companies to issue a prospectus inviting the public to take up the new securities. Legally no public limited company can raise capital from public without issuing prospectus.

- 2) **OFFER FOR SALE:** Under this method the company sells the shares / securities to the issue house / brokers at an agreed price. The issue house/brokers sell their shares / securities to the investors at a higher price.

The company is relieved from the problem of printing and advertisement of prospectus and making allotment of shares. Offer for sale is not common in India

- 3) **PRIVATE PLACEMENT:** The promoters sell their shares to their friends, relatives and well wishers to obtain the minimum subscription which is a precondition for issue of shares to the public.

Once this precondition for issue of shares is met, the issue house/brokers buy the securities outright with the intention of placing them with their clients afterwards.

The issue house/brokers maintain their own list of clients and through customer contact sell the

securities. The main disadvantage of this method is that the securities are not widely distributed to the large section of investors.

- 4) **RIGHT ISSUES:** Rights issue is a method of raising funds in the market by an existing company. A right means an option to buy certain securities at a certain privileged price within a specified period.

Shares so offered to the existing shareholders are called Right shares. Right shares are offered to the existing shareholders in a particular proportion to their existing shareholders. The company should abide with section 81 of the companies act.

If the shareholders fail to take the Right shares within a specified period, the balance is to be equally distributed among applicants for additional shares. Any balance still left over may be disposed off in the market.

- 5) **STOCK EXCHANGE PLACING:** this method has been discontinued in India due to strict regulations and statutory rules for listing of securities. According to it, "A company used to place its shares privately with the aid of brokers, and then secured permission for dealing on stock exchange". This method involved little cost but often led to concentration of new shares in few hands.
- 6) **SUBSCRIPTION BY INSIDE COTERIES:** when a company goes to the new issue market a certain percentage of the capital is kept in reserve for subscription by inside coteries.

## 5. FINDINGS:

- The IPO returns are more when comparing with nifty returns for the year 2008 to 2018.
- HDFC, Rushil Decorand Onelife Capital has given highest benefit to the investor.
- Sun TV Ltd has given highest negative benefit to the investor.
- This study reveals IPO given 75% positive result and 25% negative result or benefit to investor.
- Investors more crazy about the new issues or IPO.

## SUGGESTIONS:

- The returns of IPO's are higher when compare to benchmark portfolio of Nifty. So an investor can invest in IPO's for better returns.
- There is a probability of listing a stock returns in positive is 75% and negative is 25%.
- Investor need to develop a long term investment mindset rather than short term investment to get more returns or for achieving financial goals
- A good investor should diversifies and reduces his risk by investing in different securities which contained different risks and returns in order to achieve his goals
- An easy solution to investor is to invest in to mutual fund schemes through a systematic investment plan (sip) the mutual fund gives you a well diversified, professionally managed portfolio at low cost

- Investor need to aware of new information, which reflects wider changes in share prices.

## 5. CONCLUSIONS

- It can be observed that it is safe for the general public to invest in different sectors of primary market in present than in the past because SEBI has been introduced and it controls the operations and working of new issue market
- Primary market returns are very attractive in short period especially on the day of listing. But investors in IPO's should take wise decision in choosing the best company.
- From the overall study it can be concluded that the highest positive difference between Issue price and LTP is Educomp Solutions Ltd. scrip.
- The conclusion from the study is that the highest negative difference between Issue price and LTP is Sun TV Ltd scrip.
- The study reveals that the scrip's of Textiles and Media industries have highest negative difference between LTP and Issue price.
- The study shows that the scrip's of Bank and Power or Energy industries have highest positive difference between LTP and Issue price.

## BIBLIOGRAPHY

### Books Referred :-

- SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT  
---- PUNITHAVATHY PANDIAN
- ESSENTIALS OF FINANCIAL MANAGEMENT  
---- I.M. PANDEY

- INDIAN CAPITAL MARKETS  
---- SANJEEV AGARWAL

### Website Referred:-

- [www.nseindia.com](http://www.nseindia.com)
- [www.capitalmarket.com](http://www.capitalmarket.com)
- [www.sebi.com](http://www.sebi.com)
- [www.google.com](http://www.google.com)
- [www.hdfcsecurities.com](http://www.hdfcsecurities.com)