

A Study on Initial public Offering
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ABSTRACT

The capital market is the market for securities, where companies and the government can raise long term funds. The capital market includes the stock market and the bond market. Financial regulators ensure that investors are protected against fraud. The capital markets consist of the primary market, where new issues are distributed to investors, and the secondary market, where existing securities are traded. The study covers the Primary Markets with IPOs in particular. The study attempts to study the advantages and disadvantages of IPOs. The study collects most of the information from different secondary resources apart from primary information by discussing with different managers and customers who do online trading. The study covers only the IPOs in India. The study attempts to study the IPOs that have come up in the last few years and the IPOs that are expected to come up in the next one year. The study is limited to Initial Primary Offerings in India. The study was carried out for a period of 45 days and due to paucity of time an in-depth study was not possible. The IPO market is a dynamic one. Therefore, data related to last few months was only considered and interpreted.

a. INTRODUCTION

Initial public offering (IPO), also referred to simply as a "public offering", is when a company issues common stock or shares to the public for the first time. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. 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. Initial Public Offering (IPO) in India means the selling of the shares of a company, for the first time, to the public in the country's capital markets. This is done by giving to the public, shares that are either owned by the promoters of the company or by issuing new shares. During an Initial Public Offer (IPO) the shares are given to the public at a discount on the intrinsic value of the shares and this is the reason that the investors buy shares during the Initial Public Offering (IPO) in order to make profits for themselves. Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. Primary market creates long term instruments through which corporate entities borrow from capital market.

In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), the best offering price and the time to bring it to market. Also referred to as a "public offering".

Initial public offer (IPO) refers to sale of shares of a company to the general public for the first time, initial public offer can be a risky investment for individual investor. It is tough to predict what the stock will do on its initial day of trading and in the near future because there is often little historical data with which to analyze the company, also most IPO'S are of companies going through a transitory growth period, which are subject to additional uncertainty regarding their future values.

II. RESEARCH PROBLEM

One major source of business financing is through Initial Public Offerings (IPOs). Historically, IPOs received high initial first day gains compared to the market performance. The study was undertaken to analyze the financial performance of IPO companies. The study is mainly based on the detailed profit & loss account of the IPO companies. Data collected was secondary in nature. The study was mainly analytical and partly descriptive in nature.

III. NEED OF THE STUDY

Different investment avenues are available to investors. Stock market also offers good investment opportunities to the investor alike all investments, they also carry certain risks. The investor should compare the risk and expected yields after adjustment off tax on various instruments, while talking investment decision the investor may seek advice from experts and consultancy include stock brokers and analysts while making investment decisions.

IV. SCOPE OF THE STUDY

The study covers the Primary Markets with IPOs in particular. The study attempts to study the advantages and disadvantages of IPOs. The study collects most of the information from different secondary resources apart from primary information by discussing with different managers and customers who do online trading. The study covers the top 10 IPO'S in India. The study attempts to study the IPOs that have come up in the last few years and the IPO's that are expected to come up in the next one year (2021).

V. OBJECTIVES OF THE STUDY

- The project aims to study the functioning of primary markets in India and the role of SEBI.
- To understand the procedure of IPO for companies going public.
- To study the advantages and disadvantages of going public.
- To study the performance of IPOs.
- To do an in-depth study of the top IPOs in the last one year
- To analyze the upcoming IPOs.

VI. RESEARCH METHODOLOGY

Data collection is an actively in marketing research. The design of the data collection method is the spine of research design. The sources of data are classified in to two types.

➤ The Primary Data.

➤ The Secondary Data.

1.5.1 PRIMARY DATA

The primary data are fresh data collected directly from the field and therefore consist of original information gathered for the specific purpose. It is expensive, laborious, and time consuming. But it assures a greater degree of accuracy and reliability as it comes straight from the horse's mouth.

1.5.2 SECONDARY DATA:

The secondary data are the data, which the investigator borrows from other who have collected it for various other purposes. Therefore it may not entirely be reliable. It is less expensive and involves less expensive and involves less time and labor than the collection of primary data.

1.5.3 The Sources of collecting Data:

- I. Reports and publication of Government department and international bodies.
- II. Newspaper, magazines, trade journals.
- III. Publication of books company records, brochures, catalogues and other documents.
- IV. Data related by statistical organization.

VII. LIMITATIONS OF THE STUDY

- The study is limited to Initial Primary Offerings in India.
- The study was carried out for a period of 45 days and due to paucity of time an in-depth study was not possible.
- The IPO market is a dynamic one. Therefore data related to last few months was only considered and interpreted.
- Secondary information may not be authentic.
- Since the analysis are made from the information given by the respondents as on date of research.

VIII. REVIEW OF LITERATURE

- ❖ Madhusoodhanan and Thiripalraju(1997) shows that the annualized excess returns from IPOs at 294.8% was higher than the experiences of the other countries. They also suggest book building as an alternative “proposition to avoid mispricing”.
- ❖ Kakati (1999) examined the performance of a sample of 500 IPOs that tapped the market during January 1993 to March 1996 and documents that the short run under pricing is to the tune of 36.6% and in the long-run the overpricing is 40.8%.
- ❖ Krishnamurti and Kumar (2002) working on the IPOs that listed between July 1992 to December 1994 conclude a mean excess return of 72.34% and indicate that the time delay between offer approval and the issue opening as an important factor behind the under pricing.
- ❖ Majumdar (2003) also documents short run under pricing in India and observes after market total returns of 22.6% six months after listing. All the above mentioned studies examined IPO performance during the fixed price regime as book building was not in vogue at those times.
- ❖ Ranjan and Madhusoodanan (2004) from a study of 92 IPOs offered during 1999-2003 document that fixed price offers were underpriced to a larger extent than the book built issues though the book built issues were only figuring 24 in the sample this was the first study comparing the fixed price issues performance vis-à-vis book built issues.

Table: 4.1 IPO List 2021 (Mainboard & SME IPO)

<u>Issuer Company</u>	<u>Exchange</u>	<u>Open</u>	<u>Close</u>	<u>Lot Size</u>	<u>Issue Price (Rs)</u>	<u>Issue Size (Rs Cr)</u>
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<u>Zomato Limited IPO</u>	BSE	Jul 14, 2021	Jul 16, 2021	195	72 to 76	9375
<u>AA Plus Tradelink Limited IPO</u>	BSE SME	Jul 08, 2021	Jul 13, 2021	8000	18	6.48
<u>Clean Science and TechnologyLtd IPO</u>	BSE , NSE	Jul 07, 2021	Jul 09, 2021	16	880 to 900	1546.62
<u>G R Infra projects Limited IPO</u>	BSE , NSE	Jul 07, 2021	Jul 09, 2021	17	828 to 837	963.28
<u>Walpar Nutritions Limited IPO</u>	NSE SME	Jun 30, 2021	Jul 05, 2021	2000	55	6.6
<u>Focus Business Solution LimitedIPO</u>	BSE SME	Jun 30, 2021	Jul 05, 2021	6000	19	1.22
<u>India Pesticides Limited IPO</u>	BSE , NSE	Jun 23, 2021	Jun 25, 2021	50	296	800
<u>Times Green Energy (India) LtdIPO</u>	BSE SME	Jun 16, 2021	Jun 22, 2021	2000	61	4.05
<u>Adeshwar Meditex Limited IPO</u>	BSE SME	Jun 15, 2021	Jun 18, 2021	6000	25	9.75
<u>Krishna Institute of MedicalSciences Limited IPO</u>	BSE , NSE	Jun 16, 2021	Jun 18, 2021	18	825	2143.74

Table: 4.2 TREND OF IPO'S YEAR ON YEAR

Year	Amount (Rs. Crore)	No of Issues
2010-11	5,732	14
2011-12	22,131	34
2012-13	25,526	34
2013-14	23,676	102
2014-15	24,993	85
2015-16	53,219	91
2016-17	3,534	22

2017-18	49,441	47
2018-19	55,613	67
2019-20	14,178	38

INTERPRETATION

1. IPOs are the most popular for private companies to go public.
2. Companies generally go for IPOs for expansion of operations or setting up new divisions.

Table: 4.3 TOP GAINERS - 2020

NAME OF THE ISSUE	PRICE ON31 ST DEC 2020(RS)	ISSUE PRICES.)	INCREASE (%)
ONELIFE CAPITAL ADVISORS LIMITED	230.1	110	109.18%
AANJANEYA LIFECARE LIMITED	485.05	234	107.29%
PRAKASH CONSTROWELL LTD	243.6	138	76.52%
RUSHIL DECOR LIMITED	120.25	72	67.01%
FLEXITUFF INTERNATIONAL LIMITED	257	155	65.81%
LOVABLE LINGERIE LIMITED	316.6	205	54.44%
TREE HOUSE EDUCATION & ACCESSORIES	158	135	17.04%

INTERPRETATION

1. IPOs are not so popular in India compared to the western countries.
2. IPOs were offered at Fixed Offer Prices earlier, but Book Building process has been popular in the recent years.
3. BSE IPO index is performing badly compared to the SENSEX.

Table: 4.4 TOP Losers – 2020

NAME OF THE ISSUE	PRICE ON31 ST DEC 2020(RS)	ISSUE PRICES.)	DECREASE (%)
TAKSHEEL SOLUTIONS LIMITED	12.85	150	-91.43%
BHARATIYA GLOBAL INFOMEDIA	7.35	82	-91.04%

LIMITED			
ACROPETAL TECHNOLOGIES LIMITED	11.5	90	-87.22%
BROOKS LABORATORIES LIMITED	13.25	100	-86.75%
SHILPI CABLE TECHNOLOGIES LIMITED	9.6	69	-86.09%
INDO THAI SECURITIES LIMITED	10.6	74	-85.68%
SERVALAKSHMI PAPER LIMITED	4.35	29	-85.00%
PARAMOUNT PRINTPACKAGING LIMITED	5.55	35	-84.14%
VASWANI INDUSTRIES LIMITED	10.55	49	-78.47%
SANGHVI FORGING AND ENGINEERING	22.25	85	-73.82%

INTERPRETATION

1. The total number of companies that have come for are just around 500 in the last 10years
2. The total no of companies coming for IPO have touched the maximum (102) in 2018-2019.

Table: 4.5 IPO'S By Grade

Grade Assigned	Total
IPO GRADE 1	6
IPO GRADE 2	17
IPO GRADE 3	10
IPO GRADE 4	4
IPO GRADE 5	1

INTERPRETATION

1. The no of IPOs in 2019-2020 (till date) are just 38 as compared to 67 in the previous year.
2. 2018-2019 was mostly affected with just 22 companies coming for IPOs because of recession. Companies were not coming for IPOs due to lack of investor confidence.

Table: 4.6 TOP BOOK RUNNERS – LEAD MANAGERS IN 2020

Book Runners - Lead Managers	IPOs
JM Financial Consultants Private Limited	5
Almondz Global Securities Limited	4
Arihant Capital Markets Limited	3
Ashika Capital Limited	3
Corporate Strategic Allianz Limited	3
ICICI Securities Limited	3

INTERPRETATION

1. 38 companies that have come for IPO this year, only 7 companies are now trading at a profit while the rest of companies are now trading at a loss.
2. JM Financial Consultants Private Limited and Almondz Global Securities Limited stood on top in the list of Book Runners & Lead Managers in 2019.
3. Close to 100 companies are in the pipe line to raise money through IPOs in the coming months.

IX. FINDINGS

- The investment done in the securities by the investors is mainly done only by the image of the company but not on the basis of the fundamental analysis.
- Most of the investors always prefer to purchase at a lower rate when issue price and last trade price is compared.
- The average difference for the year 2018 regarding IPO's performance from issue price to last trading price is 114.83 percent.
- The average difference for the year 2019 regarding IPO's performance from issue price to last trading price 53.625 percent.
- The average difference for the year 2018 regarding IPO's performance from issue price to last trading price 21.42 percent.
- The percentage return shows the return for a particular period of time. The last trade price will always be higher than the issue price. The last trade price comes after the issue price in the above study.

X. SUGGESTIONS

- A thorough fundamental analysis should be done before investing in any IPOs.
- Investors should come out of the opinion that all the IPOs will be traded at a premium.
- Looking at the previous trends, investors should be cautious while investing in Initial Public Offerings.
- Investors in IPOs should study the company and the growth of industry in which it is operating in thoroughly.
- Investors should also look at the economic conditions before investing in an IPO.
- The government in co-ordination with SEBI should be more proactive in checking dubious companies coming for IPOs with the sole objective of raising money to cheat the public.
- There should be more stringent rules imposed for companies to go public.
- The investment in IPO can prove too risky because the investor does not know anything about the company because it is listed first time in the market so its performance cannot be measure.
- On the other hand it can be said that the higher the risk higher the returns earned. So we can

say that the though risky if investment is done then it can give higher returns aswell.

- Primary market is more volatile than the secondary market because all the companies are listed for the first time in the market so nothing can be said about its performance

XI. CONCLUSIONS

Investors should be careful while investing in IPOs. The essential points to take care of to see that IPOs are successful and investors benefit from investing in the IPOs include:

1. Investors should check that companies are appointing underwriters, book runners and lead managers appointed have good expertise in the industry.
2. The market relies heavily on analyst projections and recommendations: Investors should understand the company, customers, and competition; and also see that promoters have sincere commitment in covering the company.
3. Previous trends play an important role. The underwriter must have the ability and contacts to identify the right investor groups for the company and get them committed to attend. References from previous IPO successes are essential.
4. There must be sufficient evidence of being able to build a quality "book" of potential orders for your stock.
5. There should be a history regarding the ability to identify the right offer price and size.
6. Investors should go for those IPOs where companies provide significant aftermarket support in terms of maintaining and supporting trading in the stock, providing subsequent research reports on the company, and continuing institutional exposure to the company.

XII. BIBLIOGRAPHY

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