



## A Study on grouping of company (if any) based on average long term performance of Indian IPOs (2004:2008)

### KEYWORDS

Indian IPO, Long term return, Offer price, Listing price

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**ABSTRACT** *One of the major reforms Indian markets witnessed in the recent past is introduction of issuing shares which aims at efficient price discovery. This paper provides evidence on to identify the group of IPOs based on long term return related to listing and offer price. Descriptive Statistics like Mean, Median and Standard deviation, maximum, minimum value and cluster analysis have been used. Evidence is found that, there is a significant difference in the groups of the companies.*

### I. INTRODUCTION

In the financial year of 2008, India saw the greatest year in Indian capital markets when the total capital raised went northwards of US\$9 billion. However, the following years have not been very promising. Notwithstanding the impact of the global financial crisis, Indian capital markets have not been able to match the growth story witnessed ever since the liberalization of the economy till 2008. In the preceding financial year 2010, while India ranked 4th with respect to the amount of capital raised, contributing to 3.7% of global IPO share, China (which also includes Hong Kong) contributed to almost 47% of the global capital raised in IPOs. (Source: Global IPO Trends 2011, published by Ernst and Young) The above statistics provide an interesting insight into the growth trajectory of the Indian capital markets and its future role in the financial world. As research to identify group of companies based on return has remained a relatively unexplored area, study focuses to identify group of company (if any) on basis of average long term return with reference to Listing and offer price having negative and positive return.

### II REVIEW OF LITERATURE:

Sullivan & Unite (1999) show first-day returns earned by investors purchasing the initial public offer of a Philippine company are consistent with what has been documented in other countries. They conclude that these returns would be attributed to the under-pricing of IPOs. Initial returns of 22.69 percent are greater than those documented for U.S. IPOs. This finding confirms the view that investors in smaller countries with a less developed capital market are subject to greater risks. Levis (1993) reports that the 36-month cumulative abnormal return, excluding first month returns, for initial public offerings in UK is -22.96 percent and statistically significant.

Seshadev Sahoo and Prabina Rajib (2010) reports on IPO performance, i.e., short-run under pricing and long-run underperformance for 92 Indian IPOs issued during the period 2002-2006 up to period of 36 month. Ljungqvist (1997) for the German market, Wong and Chiang (1986) for the Singapore market, Krishnamurti and Kumar (2002) in Indian and Yong and Isa (2003) provide evidence on under pricing of IPOs in the Asian markets. From that detail analysis, this study suggests certain research gaps. **First**, the recent dataset calendar year covering 2004-2008 has been used. **Second**, the technique of cluster analysis is not done by any other study.

### RESEARCH METHODOLOGY:

**Problem Statement:** "Grouping of company (if any) based on average long term performance of Indian IPOs (2004:2008)."

### Research Objectives

1. To identify group of company (if any) on basis of average long term return with reference to listing price having

Negative Return

2. To identify group of company (if any) on basis of average long term return with reference to listing price having Positive Return
3. To identify group of company (if any) on basis of average long term return with reference to Offer Price having Negative Return
4. To identify group of company (if any) on basis of average long term return with reference to Offer Price having Positive Return

### Variables

- Simple Average Return i.e. from offer price and listing price up to 1, 6, 12, 24 and 36 month from listing price.
- Offer Price i.e. price at which IPO is offered
- Listing price i.e. price at which IPO is listed on stock market
- Share price after 1 month, 6 month, 12 month, 24 month and 36 month from listing

**Research Design:** The present study is Descriptive Research in nature.

**Data collection:** Secondary data was collected from web-sites [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com), [www.sebi.gov.in](http://www.sebi.gov.in), and [www.capitaline.com](http://www.capitaline.com) and CMIE Prowess.

**Sampling Design:** The sampling frame is companies who had issued IPOs (equity only) during calendar year 2004 to 2008 in India shown in table 1.

**Table 1: Description of the Sample of IPOs and Sample Selection Criterion**

Total number of IPOs offered during year 2004 to 2008	338
Exclusion number of IPOs missing after-market price data	13
Final Total number of IPOs of the study	325

Note: percentage of eligible companies in the sample is 96.15%

**Table 2 Classification of IPOs Return relative to listing price and offer price**

Category	No of IPOs (R_list)	No of IPOs (R_offer)
Negative Return Companies	214	154
Positive Return Companies	111	171

Sample Consists of IPOs issued during calendar year 2004 to 2008 in India. Out of total 325 IPOs was issued during that time period, 214 IPOs has given long term average Negative Return and 111 IPOs has given Positive Return Relative to

listing price. 154 IPOs has given long term average Negative Return and rest 171 IPOs has given Positive Return Relative to offer price.

**Hypothesis**

H<sub>01</sub>: There is no significant difference in the mean rank of group of company Average Return with reference to listing price on the basis of negative return.

H<sub>02</sub>: There is no significant difference in the mean rank of group of company Average Return with reference to listing price on the basis of positive return

H<sub>03</sub>: There is no significant difference in the mean rank of group of company Average Return with reference to offer price on the basis of negative return.

H<sub>04</sub>: There is no significant difference in the mean rank of group of company Average Return with reference to offer price on the basis of positive return.

**Data Analysis Tools** The main statistical tools used mean, median and standard deviation, minimum value, maximum value and Cluster Analysis have been applied by spss 16.00

**Scope and Benefits of the study**

- The study has been undertaken with a view point of benefiting a significant section of the society. The researcher has thus focused on very concerning issue of grouping of company based on average long term return of IPOs.
- The result will be of interest to the investors, advisors, financial planners, advisory body of companies.
- The findings from the study are considered to be useful in finding out the difference between average long term return relative to offer price and listing price having positive and negative IPOs.

**Limitations of the study**

- The limitations of the average that is being impacted by the extreme values cannot be avoided in return calculation while examining the performance for average annualized returns.
- The volatility and the changing market conditions, which do have an impact on the prices of the shares and thus the returns generated thereof, could not be avoided.

**DATA ANALYSIS**

The main statistical tools used to identify group of company (if any) are mean, median and standard deviation, variance, minimum and maximum return. In order to find out the significant difference in the mean rank of all groups of clusters, Kruskal Wallis test was carried out. 214 IPOs has given Negative average long term return relative to listing price. For the cluster analysis purpose in this study it is written as R\_Negative\_Related to Listing Price.

**Table 3: Descriptive (R\_Negative\_Related to Listing Price)**

	N	Percent	Mean	Median	Std. Dev	Minimum	Maximum
1	21	9.80	-67.45	-65.32	5.58	-78.52	-60.83
2	80	37.40	-49.84	-50.48	5.53	-59.85	-41.19
3	61	28.50	-29.79	-30.35	6.24	-39.97	-19.40
4	52	24.30	-9.89	-10.11	5.49	-18.58	-0.09
Total	214	100.00	-36.15	-38.61	19.48	-79.00	0.00

There are four groups of cluster. The minimum score of return is -78.52 per cent of Niraj Cement Structural Ltd. Cluster 3 consists of 61 IPOs between the ranges of -20 to -40 per cent. In the Cluster 4 the maximum score is -0.09 percent of L T Foods Ltd.

**Table 4: Descriptive (R\_Positive\_Related to Listing Price)**

	N	Percent	Mean	Median	Std. Dev	Minimum	Maximum
1	95	85.58	37.24	31.96	26.51	0.93	106.82
2	13	11.71	169.54	153.43	35.381	126.33	234.29
3	2	01.18	415.86	415.86	83.80	356.60	475.12
4	1	0.01	1003.44	NA	NA	NA	NA
Total	111	100.00	68.26	39.63	113.98	0.93	1003.44

There are four groups of cluster: 1<sup>st</sup> cluster consists minimum score of return is 0.93 per cent of Mahindra & Mahindra Financial Services Ltd. Cluster 3 has return between 356.60 to 475.12 per cent. Cluster 4 The IPO included in this cluster is India bulls Financial Services Ltd. with 1003.24 per cent.

**Table 5: Descriptive (R\_Negative\_Related to Offer Price )**

	N	Percent	Mean	Median	Std. Dev	Minimum	Maximum
1	23	14.94	-57.55	-56.52	4.90	-65.79	-50.87
2	65	42.21	-37.79	-37.32	5.93	-48.78	-27.88
3	29	18.83	-21.19	-22.51	4.52	-27.20	-14.53
4	37	24.02	-6.73	-7.02	4.04	-13.37	-.02
Total	154	100.00	-30.15	-31.98	17.64	-65.79	-.02

There are four groups of cluster: Cluster 1 has minimum score of return is -65.79 per cent of Broadcast Initiatives Ltd. Third cluster consists range of -27 to -14 per cent. Cluster 4 has the maximum return of -0.02 percent of Nitco Ltd.

**Table 6: Descriptive (R\_Positive\_Related to Offer Price )**

	N	Per-cent	Mean	Median	Std. Dev	Minimum	Maximum
1	155	90.64	58.45	47.58	46.31	0.12	172.00
2	8	4.68	220.76	217.90	23.15	191.45	251.62
3	6	3.51	331.93	328.42	36.31	292.50	376.73
4	2	1.17	1053.64	1053.64	30.45	1032.11	1075.18
Total	171	100	87.28	51.20	129.25	0.12	1075.18

There are four groups of cluster: Cluster 1<sup>st</sup> cluster consists of 155 IPOs, which is 90.64 percent with the minimum score of return is 0.12 per cent of Yash Papers Ltd. Cluster 3 consists return between 290 to 375 per cent. Cluster 4 has the maximum score is 1075.18 per cent of India bulls Financial Services Ltd.

**Kruskal - Wallis test**

In the second stage of cluster analysis, in order to find out the significant difference in the mean rank of all groups of clusters of average long term return relative to Listing Price and offer price, Kruskal Wallis Test was carried out.

Category	Asymp. Sig. (R_list)	Asymp. Sig. (R_offer)
Negative Return Companies	0.000	0.000
Positive Return Companies	0.000	0.000

As shown in table 7, null hypothesis is rejected which shows that there is a significance difference in the mean rank of average long term return relative to list price and offer price having negative and positive return for different types of IPO groups.

**CONCLUSION AND SUGGESTIONS:**

It is to be suggested to the investors to invest in IPO at of-

fer price as the possibility to get positive return is higher in this case. It also supports the view of Seshadev sahuo and Prabina Rajib (2010). There is a significance difference in the mean rank of average long term return relative to list price and offer price having negative and positive return for different types of IPO groups. It can be concluded that IPOs can be grouped in 4 clusters based on their average long term return relative to listing price and offer price having positive return and negative return.

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