



## An Analytical Study of Return on Investment on IPO's of Indian Corporates

### KEYWORDS

Investor, Return on Investment, Initial Public Offerings (IPOs)

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**ABSTRACT** *In this modern era, money plays an important role in one's life. In order to overcome the problems in future they have to invest their money. The investors prefer to invest in different investment options according to their need. The present study focuses on Return on Investment of ipo's of Indian stock market from 1st April, 2011 to 31st March, 2013. The study is based on secondary data. The researcher has used the chain based Index method and Spearman's Rank correlation between high price and close price as on listed for analysis and testing hypothesis.*

### INTRODUCTION

The objective of any investor is to maximize the returns from investments, subject to various constraints, primarily risk. Return is the motivating force, inspiring the investor in the form of rewards, for undertaking the investment. Investment aims at multiplication of money at higher or lower rates depending upon whether it is a long term or short term investment and whether it is risky or risk free investments. The importance of returns in any investment decision can be traced to the following factors:

- ❖ It enables investors to compare alternative investments in terms of what they have to offer the investor.
- ❖ Measurement of historical (past) returns enables investors to assess how well they have performed.
- ❖ Measurement of historical returns also helps in the estimation of future returns. The rate of return is the total return the investor receives during the holding period (the period when the security is owned or held by the investor).

**Return on Investment – ROI** The return on investment is the return earned from the investment made by the firm. This gives the actual position of the firm. ROI shows whether the management is in profitable position or not. It measures the earnings of the firm. It multiplies profit margin and Asset Turnover.

### OBJECTIVE OF THE STUDY

- ❖ To analyze the return on investment on IPO.
- ❖ To assess the performance of IPO from the selected companies.
- ❖ To investigate the effect of individual shares price volatility on the stock market index volatility.

### REVIEW OF LITERATURE

#### ❖ Shankaregouda (2008):

It's Analysed Recent Trends in Indian IPO Market. The article biased on IPOs witnessed a sharp decline in collections during the June 2008 quarter, indicating a fall of 88.45% from the year-ago levels. The sentiment of the investors can be

traced back to the overvalued Reliance Power IPO during Q4'07.

#### ❖ KPMG's Private Equity Group, (2008):

In their study entitled "private equity investing in India" they have attempted to examine the Private equity in India. The objective was to ascertain how the Private equity market has developed in India, and how the marketplace might continue to develop.

### RESEARCH METHODOLOGY

This study includes the analysis of 69 Indian listed companies in Indian Stock Exchange from 1st April, 2011 to 31st March, 2013. The researcher has used the chain based Index method and Spearman's Rank correlation for analysis and testing hypothesis. This study is mainly based on secondary data obtained from Company websites, bseindia.com and www.nseindia.com.

### SCOPE OF THE STUDY

As part of the research study researcher has selected return on investment on IPOs at micro level for it is micro base study, the issues for public is "IPO & FPO". The title of the problem is to analyse the return of IPOs.

### LIMITATIONS OF THE STUDY

The IPO is very wide subject but researcher has covered only important points of that. Therefore the present study is limited to the points covered.

### DATA ANALYSIS

#### Hypothesis

#### Null Hypothesis ( $H_0$ ):

There is no significant relationship between high price and close price.

#### Alternative Hypothesis ( $H_1$ ):

There is significant relationship between high price and close price.

**Table-1 Spearman's Rank Correlation between high price and close price of Return on investment as on listing date**

Sr No.	Company Name	Return on investment of high price	Return on investment of close price	Rating of the high ROI(3) (R1)	Rating of the close ROI(4) (R2)	D = R1 - R2	D <sup>2</sup>
1	2	3	4	5	6	7	8
1	Muthoot Finance Ltd	2.67	0.14	31	59	-28	784
2	Paramount Printpackaging Ltd	1.37	4.58	40	25	15	225
3	Future Ventures India Ltd	1.22	4.14	41	28	13	169
4	Innoventive Industries Ltd	39.46	4.29	3	27	-24	576

5	Servalakshmi Paper Ltd	16.57	8.39	8	14	-6	36
6	Vaswani Industries Ltd	0.70	1.62	53	40	13	169
7	Sanghvi Forging & Engineering Limited	4.05	6.05	23	22	1	1
8	Aanjaneya Lifecare Ltd	7.80	6.69	14	19	-5	25
9	Power Finance Corporation Ltd	0.24	0.38	63	55	8	64
10	Timbor Home Limited	7.93	7.10	13	17	-4	16
11	VMS Industries Ltd	5.63	7	17	18	-1	1
12	Birla Pacific Medspa Ltd	44.44	32.96	2	3	-1	1
13	Rushil Decor Ltd	15.66	14.21	10	9	1	1
14	Readymade Steel India Ltd	1.95	8.78	34.5	13	21.5	462.25
15	Bharatiya Global Infomedia Ltd	0.52	13.37	57	10	47	2209
16	Intevture Growth & Securities Ltd	22.46	18.92	6	4	2	4
17	L&T Finance Holdings Limited	0.22	0.90	64	48	16	256
18	Tree House Education & Acces	4.48	3.12	20	30	-10	100
19	Brooks Laboratories Ltd	5.68	7.26	16	16	0	0
20	SRS Limited	0.89	6.38	47	20	27	729
21	TD Power Systems Ltd	5.01	1.79	19	37	-18	324
22	PG Electroplast Limited	25.61	18.45	5	5	0	0
23	Prakash Constrowell Ltd	18.87	16.13	7	6	1	1
24	RDB Rasayans Ltd	4.09	15.16	22	7	15	225
25	Tijaria Polypipes Ltd	2.79	14.99	30	8	22	484
26	M and B Switchgears Ltd	15.89	12.29	9	11	-2	4
27	Onelife Capital Advisors Ltd	11	6.27	11	21	-10	100
28	Taksheel Solutions Ltd	4.26	11.45	21	12	9	81
29	Flexituff International Ltd	3.58	1.34	25	43	-18	324
30	Indo Thai Securities Limited	3.87	7.86	24	15	9	81
31	Multi Commodity Exchange of India Ltd	8.71	5.86	12	23	-11	121
32	BCB Finance Ltd	1.54	0.54	38.5	51	-12.5	156.25
33	Olympic Cards Ltd	0	0.96	67	47	20	400
34	National Buildings Construction Corporation Ltd	0.82	1.47	49.5	42	7.5	56.25
35	MT Educare Ltd	2.95	2.95	28	31	-3	9
36	Tribhovandas Bhimji Zaveri Ltd	0.04	1.78	66	38	28	784
37	Speciality Restaurants Ltd	1.85	1.85	36	36	0	0
38	Monarch Health Services Ltd	1.01	0.05	44.5	63	-18.5	342.25
39	Max Alert Systems Ltd	38.33	35.59	4	2	2	4
40	VKS Projects Ltd	0.35	0.21	60	58	2	4
41	Sangam Advisors Ltd	1.09	0.10	42.5	61	-18.5	342.25
42	Jupiter Infomedia Ltd	0.82	0.80	49.5	50	-0.5	0.25
43	Jointeca Education Solutions Ltd	0.32	0	61.5	66	-4.5	20.25
44	SRG Housing Finance Ltd	0.32	0.27	61.5	57	4.5	20.25
45	Comfort Commotrade Ltd	1.54	1.54	38.5	41	-2.5	6.25
46	Thejo Engineering Ltd	0.06	0.06	65	62	3	9
47	Anshu's Clothing Limited	0.97	0.13	46	60	-14	196
48	RCL Retail Limited	0.86	0.86	48	49	-1	1
49	Bronze infra-tech Ltd	2.84	1.76	29	39	-10	100
50	Tara Jewels Limited	1.58	0.01	37	64	-27	729
51	Veto Switchgears and Cables Ltd	-	-	68.5	68.5	0	0
52	Credit Analysis & Research Ltd	6.05	4.50	15	26	-11	121
53	PC Jeweller Ltd	3.14	2.23	27	34	-7	49
54	Bharti Infratel Limited	1.95	2.81	34.5	32	2.5	6.25
55	Eco Friendly Food Processing Park Ltd	0.81	0.45	51	53	-2	4
56	Esteem Bio Organic Food Processing Ltd	1.09	1.095	42.5	45	-2.5	6.25
57	V-Mart Retail Ltd	0.55	0.43	56	54	2	4

58	Sai Silks (Kalamandir) Ltd	-	-	68.5	68.5	0	0
59	Kavita Fabrics Ltd	0.46	0.46	58	52	6	36
60	Sunstar Realty Development Ltd	2.17	2.17	33	35	-2	4
61	Channel Nine Entertainment Ltd	1.01	1.01	44.5	46	-1.5	2.25
62	HPC Biosciences Ltd	2.38	2.38	32	33	-1	1
63	Repco Home Finance Ltd	0.45	1.25	59	44	15	225
64	Bothra Metals and Alloys Ltd	0.62	0	55	66	-10	100
65	GCM Securities Ltd	48.92	48.92	1	1	1	1
66	Lakhotia Polyesters (India) Ltd	0.63	0	54	66	-12	144
67	Opal Luxury Time Products Ltd	0.78	0.31	52	56	-4	16
68	Ashapura Intimates Fashion Ltd	5.30	5.04	18	24	-6	36
69	Samruddhi Realty Ltd	3.35	3.35	26	29	-3	9

### INTERPRETATIONS

Table 1 presents the statistical summary of all the stocks. The above table indicates Spearman's Rank Correlation between high price and close price return on investment as on listing date. In fact, 50 companies out of 69 were listed at a high price with premium as compare to the offer price. The companies were allotted the shares to the investors with good return.

### CONCLUSION:

In order to test the hypothesis Spearman's Rank Correlation co-efficient will show different degrees of correlation. Here,  $r = 0.7896$  which suggests positive relationship between high price and close price. To test this value Spearman's Rank

Correlation table is used to determine the acceptance and rejection regions. And by that the value of  $r$  is 0.77 and the test at 5% level of significance, in this case two tailed test is appropriate and it can be seen from the table  $n = 69$  and the column for significance level at 0.05 and find that the critical values for  $r$  is  $\pm 0.3977$  i.e. upper limit of the acceptance region is 0.3977 and the lower limit of the acceptance region is 0.4451. Since the calculated of  $r = 0.77$  is outside the limit of the acceptance region. So, the null hypothesis is rejected that means there is no significant relationship between high price and close price. Alternate hypothesis state that there is significant relationship between high price and close price. Also it is evident from the above calculations that return on investment on IPO's give high return to investors.

### REFERENCE

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