



AN ANALYTICAL STUDY OF PERFORMANCE OF INITIAL PUBLIC OFFERINGS (IPOS) AND STATUS OF THEIR MARKET CAPITALIZATION IN INDIA

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ABSTRACT Initial public offerings are gaining importance worldwide as an important source of funds for the companies to accelerate their growth by using the mobilized funds to implement innovative strategies as well as considered as an important tool for investment since it offers huge profits on the listing day. This study explores the recent financial position of recent launched IPOs. In this research there is application of Return on Equity, Debt to Equity and Market Capitalization. The objective of this study is to observe performance of various sectors along with its market capitalization. The researcher has analyzed performance of IPOs. The finding will help to conclude to know not only performance of concerned sectors but will also help conclude if IPO can be a long term investment tool or a speculative opportunity to earn booming profits.

KEYWORDS : "Initial Public Offerings, Return of Equity, Debt to Equity, Market Capitalization"

Introduction:

The Indian share market has shown always high volatilities, especially for last five years. Many old and highly organized sectors gain and lost due to market fluctuations. It is believed that old scripts can perform better than the new one but it is not always true. Last financial year was a very crucial year for old scripts of any IPOs. It was observed in recent past that many reputed companies have delayed issue of IPO due to intense market risks. With reference to this, issue IPOs was a debatable matter during last financial year. Due to this, in this study the researcher was motivated to look into this matter and assess the recent financial position of IPOs and to see their market capitalization. Theoretically, share market volatilities have considerable impact on the issue of IPOs.

The IPO Market in India has been developing since the liberalization of the Indian economy. It has become one of the foremost methods of raising funds for various developmental projects of different companies.

In 2016, India's IPO market recorded strong performance as altogether total rising reached to Rs. 3.8 millions which was contributed by IPOs. Globally, entrepreneurial and investor confidence was "challenged" throughout 2016 by heightened political and economic uncertainty. As a result, the number of IPOs in 2016 fell 16 per cent year-over-year to 1,055 and capital raised was down by 33 per cent to \$132.5 billion.

India was the standout performer at the country level, recording a 38 per cent increase in deal volume and a 79 per cent surge in proceeds rose, driven by stronger economic fundamentals and a pro-business political regime.

2. Review of Literature:

1. Dr. A. S. Ambily, Gayatri Krishna, Aswathy K and Deepa Balakrishnan. (2016). A study on Performance of Ipo's under NSE from issue price to last trading price in the year 2013-2015. Global Journal of Finance and Management, Volume-8, pp. 43-48.

2. Dr.S.Poornima, Aalaa J.Haji, Deepha.B. (2016). A Study on the Performance Of Initial Public Offering of Companies Listed In NSE, India & Gulf Base GCC Index. International Journal of Research in Finance and Marketing (IJRFM), Volume-6, pp. 31-46.

3. Madhuri Malhotra, Manjusha Nair. (2015). Initial Public Offerings Under-pricing: A Study on the Short Run Price Performance of Book-Built IPO in India. Indian Journal of Research, Volume-4, pp. 197-204.

4. Dr. Anuradha Sheokand. (2015). A Comprehensive Study on Under Pricing in Indian Initial Public Offerings. International Journal of Informative & Futuristic Research, Volume-2, pp. 2507-2016.

5. Dr. P. Roopa. (2016). A Study on Initial Performance Of IPO's in india During 2015-16 - Comparison of Book Building and Fixed Price Mechanism. International Conference on Science, Technology and Management, 4th Conference, pp. 339-346.

3. Objectives:

1. To assess the performance of selected IPOs by applying Return of Equity (ROE) and Debt to Equity Ratio.

2. To see the recent level of market capitalizations of selected IPOs.

3. To investigate the soundness, profitability and creditability of various sectors.

4. Research Methodology:

Collection of Samples: With an aim to see an overall picture of issue of new IPOs, all the major IPOs which were issues in 2015-16 are undertaken in this research. The samples are collected from various industries like Media & Entertainment, Food Processing, Drugs & Pharma, Tea & Coffee, Construction, Health Services, Auto Ancillaries etc.

Sample Size: This study has undertaken 42 IPOs which are issued in 2015-16. All the IPOs are registered in BSE.

Source of Data: Information of all 42 IPOs are collected from www.valueresearchonline.com, which is India's one of most trust worthy source for mutual funds, IPOs and ETFs.

Data Collection Technique: The researcher has undertaken all 42 issued IPOs in 2015-16. This will facilitate appropriate comparison and lead more accuracy in results.

Data Analysis Tools and Techniques: To justify the objectives of the research, the researcher has used some financial performance evaluator techniques to represent appropriate performance of selected IPOs. The following techniques have been applied in the research.

1. **Return on Equity (ROE):** Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

ROE is expressed as a percentage and calculated as:

Return on Equity = Net Income/Shareholder's Equity

2. **Debt to Equity Ratio:** Debt/Equity Ratio is a debt ratio used to measure a company's financial leverage, calculated by dividing a company's total liabilities by its stockholders' equity. The D/E ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity.

The formula for calculating D/E ratios can be represented in the following way:

Debt - Equity Ratio = Total Liabilities / Shareholders' Equity

3. **Market Capitalization:** Market capitalization refers the total market value of a company's outstanding shares. Commonly referred to as "market cap," it is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment

community uses this figure to determine a company's size, as opposed to using sales or total asset figures.

5. Results and Analysis:

Table 5.1: List of IPOs, Sectors, ROE, Debt to Equity Ratio and Market Capitalization

No.	Company	Industry	ROE (%)	Debt to Equity Ratio (%)	Market Cap (Cr)
1	Adlabs Entertainment Ltd.	Media & Entertainment	-15.73	1.67	623.6
2	Advanced Enzyme Technologies Ltd.	Food Processing	31.32	0.36	4093.7
3	Alkem Laboratories Ltd.	Drugs & Pharma	21.03	0.19	20011.59
4	Coffee Day Enterprises Ltd.	Tea & Coffee	-5.99	1.69	4124.15
5	Dilip Buildcon Ltd.	Construction	21.77	3.82	2870.8
6	Dr. Lal Pathlabs Ltd.	Health Services	32.45	0	9875.38
7	Endurance Technologies Ltd.	Auto Ancillaries	22.41	0.57	7448.8
8	Equitas Holdings Ltd.	Misc. Fin. Services	13.31	3.49	5031.25
9	GNA Axles Ltd.	Auto Ancillaries	18.75	0.94	378.65
10	Healthcare Global Enterprises Ltd.	Health Services	1.34	0.57	2198.79
11	HPL Electric & Power Ltd.	Electronic Equipments.	10.89	1.63	525.01
12	ICICI Prudential Life Insurance Company Ltd.	Insurance	33.22	0	41459.33
13	Infibeam Incorporation Ltd.	Misc. Other Services	2.16	0.01	6062.48
14	Inox Wind Ltd.	Power Projects	27.93	0.8	3949.03
15	Interglobe Aviation Ltd.	Air Transport	182.24	1.81	30907.35
16	Jiya Eco-Products Ltd.	Misc. Other Services	18.9	0.55	50.9
17	L&T Technology Services Ltd.	Other Projects	129.26	0.18	8209.47
18	Mahanagar Gas Ltd.	Crude Oil & Natural Gas	21.03	0.01	7282.39
19	Manpasand Beverages Ltd.	Food Processing	12.79	0	3494.93
20	MEP Infrastructure Developers Ltd.	Infrastructure	0	30.37	584.44
21	Narayana Hrudayalaya Ltd.	Health Services	4.9	0.29	6966.66

22	Navkar Corporation Ltd.	Transport Support Services	9.24	0.42	2421.48
23	Parag Milk Foods Ltd.	Dairy products	19.48	1.07	2195.81
24	Pennar Engineered Building Systems Ltd.	Ferro Alloys	17.81	0.26	514.47
25	PNB Housing Finance Ltd.	Misc. Fin. services	17.6	12.19	13353.25
26	PNC Infratech Ltd.	Road Transport	21.06	1.26	2857.85
27	Power Mech Projects Ltd.	Power Projects	16.72	0.54	641.46
28	Prabhat Dairy Ltd.	Dairy products	5	0.25	986.53
29	Quess Corp Ltd.	Business Consultancy	30.07	1.14	7547.89
30	Quick Heal Technologies Ltd.	Computer Software	12.45	0	1582.75
31	RBL Bank Ltd.	Banking	11.21	3.53	12802.03
32	S.H. Kelkar & Co Pvt. Ltd.	Personal Care	12.7	0.11	4082.65
33	Sadbhav Infrastructure Project Ltd.	Infrastructure	-28.33	7.21	2969.26
34	SP Apparels Ltd.	Textile Processing	36.16	1.95	743.33
35	Syngene International Ltd.	Drugs & Pharma	23.67	0.86	10482
36	TeamLease Services Ltd.	BPO Services	10.77	0.06	1453.23
37	Thyrocare Technologies Ltd.	Health Services	16.22	0	3360.68
38	UFO Moviez India Ltd.	Media & Entertainment	13.09	0.2	1144.88
39	Ujjivan Financial Services Ltd.	Misc. Fin. Services	18.32	3.62	3849.01
40	Ultracab (India) Ltd.	Wires & cables	3.7	0.82	148.86
41	Varun Beverages Ltd.	Beer	-	-	8016.78
42	VRL Logistics Ltd.	Transport Support Services	23.53	0.51	2381.46

(Source: Value Research Online)

1) Return on Equity: The highest ROE is observed for Interglobe Aviation Ltd., which is measured as 182.24%, this indicates that during this period air transport industries shown significant profitability. During this tenure, good economic fundamental boomed the transportation industries. There was high demand of raw materials and other industrial goods, which enhance the profitability margin of these industries. In contradiction to this, IPO issued by Sadbhav Infrastructure Project Ltd. failed to produce good profit in 2015-16. The ROE was measured negatively with -28.33%. This was an odd outcome, because in 2016, infrastructure market was in booming stage.

2) Debt-Equity Ratio: The D/E ratio indicates how much debt a company is using to finance its assets relative to the amount of value

represented in shareholders' equity. Out of all 42 selected IPOs, MEP Infrastructure Developers Ltd. has highest value of D/E ratio, which reveals that this company highly relied on debt only. Simultaneously, its measured ROE is measured as 0, this assists to prove this company has used only its debts rather than its equity. This company must take necessary actions as excessive use of debt will disturb the financial health. Whereas, for ICICI Prudential Life Insurance Company Ltd., ICICI Prudential Life Insurance Company Ltd., Manpasand Beverages Ltd., Quick Heal Technologies Ltd. and Thyrocare Technologies Ltd. D/E ratio remains nil means these companies have not use debt capital. These companies believe in utilization of its equity capital as compared its debt capital.

3) Market Capitalization: It is refer to total market value of outstanding equity shares of one of the company. A higher value market capitalization of the firm represents considerable financial strength. The ICICI Prudential Life Insurance Company Ltd. has highest market capitalization at present which is valued at 41459.33 Cr. This is far higher value than any other selected IPOs. This not only indicate wealth of this firm but better creditability. On the other hand, Jiya Eco-Products Ltd is struggling with it very poor market capitalization level. The is a severe issue for this firm, which will have adverse effect in future.

6. Findings:

1. The IPOs of media & entertainment, tea & coffee and infrastructure failed to produce profitability as their ROE as measured negatively.

2. Due to some good economical fundamentals, transportation industries grew up efficiently as a result Interglobe Aviation Ltd. show best performance among all IPOs.

3. IPOs from health services, insurance, computer software and health services have not used their debt capital as their these fund utilized their equity fund in an appropriate way as these sectors managed to earn significant profit during 2015-16. Some well known firms like ICICI Prudential Life Insurance Company Ltd., Quick Heal Technologies Ltd., and Thyrocare Technologies Ltd. were best performers among all the selected IPOs, they received advantages of their good creditability in the market.

4. The IPO issued by ICICI Prudential Life Insurance Company Ltd. has market capitalization and Jiya Eco-Products Ltd is severely impacted IPO in context of market capitalization. Apart from insurance sector IPO i.e. ICICI Prudential Life Insurance Company Ltd., Alkem Laboratories Ltd. (drugs and pharma) and Healthcare Global Enterprises Ltd. (health services) are among the best performer IPOs as during the tenure drugs and health services are developing at very rapid pace.

7. Conclusion:

In 2015-16, in context of market capitalization, IPOs of Insurance, Drugs and Health Services have performed better as compared to Infrastructure, Dairy Products, Wires and Cable. IPOs of Financial Services like Infibeam Incorporation Ltd, PNB Housing Finance Ltd. and Ujjivan Financial Services Ltd. have performed better as compared to other selected IPOs. This enables the researcher to prove during this period, due to better economic fundamentals, there was significant development of Insurance, Drugs and Health Services. Whereas IPOs of Media & Entertainment, Tea & Coffee i.e. Coffee Day Enterprises Ltd. and Insurance firms like Sadbhav Infrastructure Project Ltd. were severally impacted by producing negative return of equity.