Volume : 3 | Issue : 5 | June 2013 ISSN - 2250-1991

Research Paper Management

Anchor Investors : Igniting or Extinguishing the Fire?

* Dr. Gaurav Malpani

* Assistant Professor, FMS-IRM, Jaipur

ABSTRACT

SEBI brought a significant amendment in 2009 by introducing the concept of Anchor Investors in its Disclosure and Investor Protection (DIP) Guidelines 2000 to ensure higher efficiency in the Indian stock market. An Anchor Investor is a Qualified Institutional Buyer (QIB), who can invest up to 30% of the QIB quota, subject to a minimum corpus of ` 10 crores as investment, and a lock-in period of at least 30 days. This measure was introduced to protect shareholder wealth during market volatility such that big institutional investors do not sell off their shares as soon as they foresee a plunging market. This paper, therefore, using the data for 17 of the IPOs issued between July 2009 and March 2011, attempts to find whether this directive by SEBI actually served its purpose of boosting investor confidence and providing stability in a volatile market.

Keywords : Anchor Investment, Anchor investor, SEBI

INTRODUCTION

One of the reforms introduced by the SEBI by way of amendments to the Disclosure and Investor Protection (DIP) Guidelines 2000 through its circular SEBI/CFD/DILDIP/09/07 dated July 9, 2009 was the concept of Anchor Investors. An anchor investor is a qualified institutional buyer, who can invest up to 30 % of the QIB quota, subject to a minimum of 10 crore and a lock in period of at least 30 days. Naturally as a significant and high net worth investor, an anchor is expected to do a lot of ground research about the company before making the investment. Having greater resources and better access to information as compared to retail investor, the anchor's confidence is expected to trickle down to the small investor. Thus, this study aims to investigate whether anchor investor have really been able to full fill this primary purpose.

OBJECTIVES OF THE STUDY

a. To ascertain the impact of anchor investors on determination of the initial price band.
b. To appraise the impact of anchor investors on share price when they exit from a fund.

REVIEW OF LITERATURE

When SEBI introduced the concept of anchor investor in July 2009, it hoped to provide an impetus to the capital market and boost investor confidence by encouraging huge investment in an IPO before it is launched. The concept is popular in Hong Kong, where business tycoons have invested in their IPO before their launch in the hope of earning handsome returns. Low (2009) in his paper examined an increasingly common feature of IPO in Hong Kong the participation of cornerstone investors, whose participation contributes positively towards enhancing the general receptiveness of the issue. He argued that the [presence of the household names and their commitment to hold the stock for a given lock-in period acts as positive signal for the market.

RESEARCH METHODOLOGY

Hypotheses: In order to conclude the study, the researchers formed the following hypothesis for the testing:

- There is no significant difference in the IPO's performance in the first 1-month (short term) with and without anchor subscription.
- There is a significant difference in the IPO's performance in the first 1-month (short term) with and without anchor subscription.
- There is no significant difference in the IPO's performance in the first 3-month (short term) with and without anchor subscription.
- There is a significant difference in the IPO's performance in the first 3-month (short term) with and without anchor subscription.
- There is no significant difference in the IPO's performance in the first year (long term) with and without anchor subscription.
- There is a significant difference in the IPO's performance in the first year (long term) with and without anchor subscription.

Data Collection: The data was analysed for 17 of the IPOs launched between July 2009 and March 2011. Out of these, 13 IPO had anchor investors, while 4 did not. In order to find out the impact of anchor investors on the success of IPOs, the researchers compared the returns for these IPOs over three different time periods, viz – 1-month, 3 months and 1 year. These time periods were chosen for the following reasons:

To check whether the price changes after the 1-month lock-in period ends (assuming that anchor investors exit after one month, since there are many anchors per issue, and it was not feasible to calculate the effect of each anchor's exit on the price).

To check whether an anchor investors have an impact over a medium term. In the capital market, prices fluctuate considerably within hours, a period of 3 months can be considered as the medium term.

To check whether the presence of anchor investors has an effect on the IPOs in the long term.

Methodology: For the present study, the researchers computed the return of IPOs in different horizons (1-month, 3-month, and 1 year) using the following formula:

Table 1: Details of Return On Investment In IPOs

Company	Introductory Price	Anchor Investors	Return in 1-month	Return in 3-month	Return in 1-year
Adani Power	100	Yes	0.90%	-7.00%	39.80%
NHPC	36	No	-4.17%	-12.92%	-15.42%
Oil India	1050	No	6.09%	18.50%	44.33%
Pipavav Shipyard	58	Yes	-2.16%	-4.05%	43.28%

Indiabulls Power	45	Yes	-27.00%	-27.22%	-38.26%
Cox and Kings	330	Yes	-34.61%	-29.26%	-44.67%
JSW Energy Ltd.	95	Yes	11.74%	20.95%	5.53%
Jubiliant Foodworks	145	Yes	91.07%	117.97%	242.66%
DB Realty	468	Yes	-3.74%	-15.58%	-77.48%
ILFS Tranportation	258	Yes	10.37%	11.14%	-8.10%
Jaypee Infotech	102	No	-15.34%	-18.92%	-48.28%
Hindustan Media Ventures	166	Yes	8.40%	8.04%	-18.89%
SKS Microfinance	935	Yes	45.74%	-14.52%	-66.10%
Ramky Infrastructure	450	Yes	-17.24%	-31.39%	-54.39%
Punjab & Sind Bank	120	No	-8.17%	-10.54%	-49.83%
Lovable Lingerie	205	Yes	53.27%	88.69%	88.12%
PTC India Financial Services	28	Yes	-22.68%	-33.93%	-45.89%
Table 1 presents the returns of various IPOs at different time lengths in last three columns. It also includes introductory prices and the presence of anchor investors in the columns 2 and 3 respectively.					
Source: www.moneycontrol.com, www.nseindia.com.					

Where,

= Return of IPO in time period t = 1, 3 and 12 months;
= Price at the end of period t;
= price at the end of period t – 1;

RESULTS AND DISCUSSION

The analysis (table 1) compares the two groups of IPOs, viz. one with anchor investors, other without anchor investors. Analysing the results (table 1) did not show researcher any significant trend that would make them believe that presence of anchor investor impact IPO performance. However, to be doubly sure, they tabulated the results in SPSS 17.0 with the following hypotheses in the aforesaid time horizons:

- There is no significant difference in the IPO's performance with and without anchor subscription.
- There is a significant difference in the IPO's performance with and without anchor subscription.

From the tables 2 and 3, we infer that t – significance values raise as we move forward in time, i.e., the effect of anchor investor declines as time passes. Thus, we see a strong evidence for not rejecting the null hypothesis. The result becomes more obvious when we apply the logic that anchor investor can have an impact on share price only in the initial few days. After that, market forces, industry expectations, economic outlook, shareholder interest, government regulations, risk and return and other such factors come into play. The following are the results (computed using SPSS 17.0) of the independent t-test:

Table 2: Mean and Standard Deviation For Anchor And non-Anchor Investor Stocks

Group Statistics					
	Anchor Investor	N	Mean	Std. Deviation	Std. Error Mean
Return in 1-month	1.00	13	.087739	.3570231	.0990204
	2.00	4	-.053977	.0894359	.0447179
Return in 3-month	1.00	13	.064466	.4665141	.1293877
	2.00	4	-.059712	.1668779	.0834390
Return in 1-year	1.00	13	.050238	.8619111	.2390511
	2.00	4	-.173002	.4404793	.2202396

Table 2 explains the mean, and standard error of mean of two different groups at various time periods.

In the Table 2, 1 = IPO with anchor investor, 2 = IPO without anchor investor.

Source: Data collected from www.moneycontrol.com, www.nseindia.com, and analysed using SPSS.

Table 3: Independent Sample t-test For Anchor and Non-Anchor Investor Stocks

Leven's Test For Equality of Variance						
		F	Sig.	t	df	Sig. (2-Tailed)
Return in 1-month	Equal variance assumed	2.630	.126	.770	15	.453
	Equal not variance assumed			1.304	14.913	.212
Return in 3-month	Equal variance assumed	1.623	.222	.512	15	.616
	Equal not variance assumed			.807	14.219	.433
Return in 1-year	Equal variance assumed	.889	.361	.491	15	.631
	Equal not variance assumed			.897	10.566	.507

Table 3 documents the F and t values for the tests conducted. The last column indicates the p value of the t-test.

Source: Data collected from www.moneycontrol.com, www.nseindia.com, and analysed using SPSS.

CONCLUSION AND RECOMMENDATIONS

Conclusion:

The entire study is focussed to explore the effect of anchor investors on the IPOs at various time lengths. The study concludes with four stylised facts:

1. The presence of anchors has no influence on the share price ranging from short-term to the long-term horizon.
2. Post listings, the price fluctuations are attributed to an idiosyncratic factor or other market related factors.
3. Anchors still do a play a role in the determination of the initial price, as it does send some positive signals across the market.
4. IPOs rated at or above 4 on a grade of 5 by rating agencies have given significantly better results, irrespective of the presence of the anchor investors.

Recommendations:

Firstly, the present lock-in period of 30 days may be quite short, especially during a prolonged bear phase. It is thus, recommended that this period may be raised to 3 - 4 months, so that the anchors may prove to be more effective. Secondly, there is a clause in the regulations that if the difference between the share price for retail investors exceeds that for anchor investors (shares to anchor investor are allotted before the issue opens for public subscription), the anchor investors have to pay the difference in the amount on a per-share basis. But if the price for retail investors is less than what it is for anchor investors, the excess amount is not refunded. This obviously acts as a disincentive for the anchors. It is thus recommended that there be a ceiling on the difference amount to be paid by the anchor investors in terms of certain percentage (in case price to public > price to anchor investors).

REFERENCES

• Anchor Investor Concept, http://www.valueresearchonline.com/story/h2_storyView.asp?str=100421, accessed on August 31, 2011. | • IPO Report- Public Issues in Last Few Years, http://www.chittorgarh.com/ipo/reports/ipo_report_yearly_parent.asp. , accessed on May 21, 2012. | • Low, Chee Keong (2009). "Cornerstone Investors and Initial Public Offerings on the Stock Exchange Of Hong Kong." Fordham Journal of Corporate and Financial Law, Vol. XIV, Number 3, pp. 638-678. | • Major IPOs in 2010, http://www.indiainfoline.com/Markets/News/Major-IPOs-in-2010-IIFL-2010-IPOs-at-a-glance/5036175221. accessed on February 22, 2012. | • Mathur, Vandana and Sivasubramaniam, T.A. (2011). "Initial Public Offering and the Underpricing Phenomena." AMET Journal of Management, Volume 2, No. 1, pp. 61-68. | • Part Issue IPO, http://www.nseindia.com/products/content/equities/ipos/historical_ipo.htm. accessed on May 21, 2012. |