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# LONG TERM PERFORMANCE ANALYSIS OF BANK PUBLIC OFFERINGS ISSUED IN NATIONAL STOCK EXCHANGE OF INDIA DURING 2005- 2014 Dr. SAJAL DAS<sup>1</sup>, Dr. UTTAM K. DUTTA<sup>2</sup>

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### ABSTRACT

The acute need of the Indian Banking Industry for capital infusion is seriously handicapped by the ever growing non-performing assets as reflected in their financial statements, which casts some serious doubt about the efficacy of depositors' and investors' funds in the hands of such bankers. Funds procurement directly from the primary market may face obstacles if banks do not tighten their seat belts to prune down their operating costs and improve NPAs recovery. Moreover to become Basel III compliant before the deadline of March 31, 2018 banks have to gear up to meet the capital adequacy requirements and for that capital procurement from the primary market is inevitable. This brings us to look back into the long term performance of all such past banking issues which raised equity through an IPO in the National Stock Exchange of India during the period from 2005 to 2014 to throw some light towards possible future prospects of Banking IPOs so that prospective investors as well as issuing bankers can take measured steps to gauge market sentiments and accordingly decide upon their responses towards such IPOs. We thus studied and analysed the post listing performance for an investment period of three years in the light of investors' capital gain and accordingly determined the buy-and -hold abnormal return using the cumulative adjusted return approach benchmarked with two major sectoral indices of CNX Bank Index and CNX PSU Bank Index. We also determined the shareholders' relative wealth index in order to gauge their gain in absolute terms. Results depicted a loss of investors' wealth both in terms of wealth index as well as buy and hold abnormal return approach for all the PSU banks which failed to build upon their initial return on listing in the longer duration whereas the only one private bank in our study gave handsome listing premium and was also able to sustain its abnormal return throughout the study period.

Keywords: IPO, CNX Bank Index, CNX PSU Bank Index, Underpricing, Basel III.

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#### I. INTRODUCTION

Post liberalisation Indian primary market has witnessed a series of drastic reforms which have enabled both issuers and investors flooding the markets with a renewed sense of confidence for new issues. Public issues are vital for the growth of the companies as it brings in fresh capital which finances their expansion needs and sets the tone for future issues. India's need for funds is not only limited to private corporate houses alone but also in key essential sectors like infrastructure, education, health, housing, banking, insurance and the like. Funding becomes easier if investors' are rewarded with handsome gains so as to retain their loyalty towards future IPO investments. Initial Public Offerings (IPOs) are the first offer of securities by a corporate entity to cash in on the public savings since the inception of the company. Being not listed it entails high risk on the part of investors to pump in their resources in favour of such new companies which have no previous proven track record of any pricing trends. As such investors' expectation of a higher return is not altogether unjustified in comparison to the benchmark index performances. Most retail investors' lacks adequate knowledge and thorough understanding of the pitfalls of primary market investments whereas they are solely guided blindly by strong expectations and greed considering IPOs as a piggy back ride to earn abnormal profits within the least possible time. Reforms like Trade for Trade controls and circuit filters for IPO trading initiated by SEBI is a way to reign in both speculators and greedy investors during the first week of trading session. Good IPOs do generate wealth for the investors and gives not only abnormal return at the time of listing but sometimes sustains way beyond that.

Indian Banking Industry, be the Public Sector Undertaking (PSU) Banks or their Private counterparts, will be facing serious hardships in maintaining the requisite capital adequacy norms as set by Basel III accord. With the Indian services sector ballooning, especially the financial services, the supremacy and contribution of the banking sector remains undisputed for our economy to grow on a sustainable basis. Banking Industry per se is going through a major transformation due to the implementation of Basel accord in a phased manner by RBI which calls for risk based capital requirements and strict monitoring by the international body of Basel Committee on Banking Supervision (BCBS). Studies have estimated that there will be a huge impact in the capital requirements of the banks due to Basel III. Even with a modest growth assumption of 10 percent in Risk Weighted Assets (RWAs) an additional requirement of about Rs. 251106.57 Crores will be the required minimum for tier-I capital fulfillment.<sup>1</sup> In line with such needs Banks have to look for fresh capital infusion from various sources so as to maintain a minimum capital adequacy ratio of 11.5 percent against the current 9 percent by March 31, 2018.<sup>2</sup> Our humble attempt is thus to reflect on the long term performances of banking IPOs already issued in the past to judge how far investors gained out from such previous issues and to link that with the future subscription prospects and overall success of banking IPOs in terms of expected responses from the public as bitter past experiences may lead retail investors to refrain from public issues.

### II. Literature Review

Large studies have been conducted in respect of underpricing of IPOs and their listing performance both in Indian context as well as in the International markets. Studies have explored various reasons to justify the first day high initial returns stating plausible factors and identifying key explanatory variables. We carried out the following review to have a better understanding of the existing models used to measure returns of IPOs and refine our research objectives to embolden our work. Shah (1995) conducted his study on Indian IPOs issued during 1991 to 1995 with a large sample of 2056 companies. He found that on an average issues were underpriced to the extent of 105.6% of the offer price and cited various factors like asymmetric information, interest rate float, loss of liquidity, merchant bankers rewarding favoured clients' for under pricing. Madhusoodanan and Thiripalraju (1997) reported for Indian IPOs an under pricing on an average of 75.21% for the period 1992 -1995. They highlighted that issues managed by reputed merchant bankers has generated lesser underpricing and suggested that listing delays and issue size were determinants in IPO under pricing. Ghosh (2004) studied intensively IPOs issued during boom and slump phases in the Indian primary market and concentrated on IPO volumes and initial returns and their interrelationship. His study reflected that timing of IPO is a key variable and companies prefer to issue during such period when the market is heavily lined up with new issues. Pandey (2005) studied the short-term as well as the long -term performance of issues through both fixed pricing method and book-building method. He reported under pricing was higher in case of fixed

pricing issues and observed under performance during the first two years from listing. Das (2012) studied minor IPOs issued during 2000 to 2009 and compared their listing returns issued during boom and recession season. Results indicated that there was no significant difference in listing performances during boom and recession season both in terms of simple under pricing and adjusted under pricing. Based on all these major works carried out in Indian context, we felt the need to undertake sector specific study of IPO performance and accordingly chosen the banking sector especially with an eye towards the impact of Basel accord.

### III. Research Objectives

As stated we are primarily interested to study the long term performance of IPOs issued by the banking companies in the Indian primary market. The objectives of our study is narrowed down to the following:

- (i) To examine the extent of under pricing of IPOs based on simple under pricing and adjusted under pricing approaches;
- (ii) To observe and analyse the trend of monthly buy and hold abnormal return generated throughout the study period;
- (iii) To compare the cumulative adjusted return bechmarked simultaneously with two key sectoral specific index.
- (iv) To compute and analyse the relative wealth index of the investors.

### IV. Methodology adopted

The entire dataset of the IPOs are obtained from the National Stock Exchange of India portal which maintains a repository of historical data of both stock prices and indices. We have selected all those public issues which were issued for the first time i.e. the entire population of initial public offerings which got listed in the NSE during the period 2005 to 2014. In total there were 5 IPOs and 11 FPOs during this entire period from the banking sector. Since our data includes stock prices and index values which are time-series in nature, so question of stationarity and unit-root will appear. To overcome such problems we have adopted data transformation techniques by using lognormal values of the entire data set. Even Box-Cox transformation have suggested natural logarithmic transformation for lambda [ $\lambda$ ] = 0.00 value. <sup>3</sup> We now present the important returns computed for the purpose of our study.

To assess the performance of initial returns on the day of listing (1d) are computed as stated below:

(i) Simple Underpricing = In(Closing stock price on listing day/Issue Price) \* 100

Symbolically, UPS =  $ln(CP_1/IP) * 100$ 

(ii) Adjusted Underpricing (Initial Returns) benchmarked with CNX Bank Index = In(Closing stock price on day of listing/Issue Price) \* 100 minus In(Closing Index value on listing day/Closing Index value on Offer Closing day) \* 100

Symbolically,  $UPA_{BI} = [In(CP_1/IP) - In(CI_1/CI_0)] * 100$ 

(iii) Adjusted Underpricing (Initial Returns) benchmarked with CNX PSU Bank Index = In(Closing stock price on day of listing/Issue Price) \* 100 minus In(Closing Index value on listing day/Closing Index value on Offer Closing day) \* 100

Symbolically,  $UPA_{PI} = [In(CP_1/IP) - In(CI_1/CI_0)] * 100$ 

Since our study involves the study of long term performance of banking IPOs we compute the buy-and-hold abnormal return for a holding (investment) period of three years from the date of listing. To compute adjusted buy and hold abnormal (BHAR) monthly return of first month (1m), second month (2m) etc. for the holding period m=1,2,3 upto  $36^{th}$  month from the day of IPO's listing we utilised the following :

- Simple Underpricing = In(Monthly Closing stock price /Issue Price) \* 100
  Symbolically, UPS = In(CP<sub>m</sub>/IP) \* 100
- (ii) Adjusted Underpricing (Initial Returns) benchmarked with CNX Bank Index = [In(Monthly Closing stock price /Issue Price) minus In(Monthly Closing Index value /Closing Index value on the preceeding day of Listing ) ] \* 100

Symbolically, UPA<sub>BI</sub>=  $[ln(CP_m/IP) - ln(CI_m/CI_{d-1})] * 100$ 

(iii) Adjusted Underpricing (Initial Returns) benchmarked with CNX PSU Bank Index = [In(Monthly Closing stock price /Issue Price) minus In(Monthly Closing Index value /Closing Index value on the preceeding day of Listing)] \* 100

Symbolically, UPA<sub>PI</sub>=  $[ln(CP_m/IP) - ln(CI_m/Ci_{d-1})] * 100$ 

(iv) Absolute Relative Wealth Index = (Closing stock price on time period 't' / Issue Price of an IPO) Symbolically, RWI  $_{t} = [CP_{t}/IP]$ 

Each and every issuing companies performance is measured on a monthly basis since the day of listing. This generates thirty six monthly returns based on the above computation for all the five banking companies and thirty six RWIs of investors who held on to their investments for the entire tenure of three years.

### V. Results

The entire BHAR and RWI computations for the five selected IPOs as stated in the methodology are presented in the following series of Table 1.1 to 1.5 and Table 2.1 to 2.2 respectively. Detailed discussion and analysis based on the outcomes of these results is presented in the next section where we delved upon the long term performance of each and every banking IPO.

Date	Holding Period Since Listing (HP <sub>1</sub> )	Closing Stock Price (Pi)	Closing CNX Bank Index (BI)	Closing CNX PSU Bank Index (PI)	Simple Under- pricing (UPS)	CNX Bank Index Adjusted Underpricing (UPA <sub>вI</sub> )	CNX PSU Index Adjusted Underpricing (UPA <sub>PI</sub> )	
12-Jul-05	1d	60.85	3892.25	1473.13	30.17	28.95	28.93	
11-Aug-05	1m	71.65	4265.25	1618.91	46.51	36.14	35.83	
9-Sep-05	2m	72.7	4314.15	1636.04	47.97	36.45	36.23	
11-Oct-05	3m	67.2	4489.4	1722.28	40.1	24.61	23.23	
11-Nov-05	4m	66.5	4165.3	1566.37	39.05	31.05	31.67	
9-Dec-05	5m	71	4314.5	1587.25	45.6	34.08	36.89	
10-Jan-06	6m	68.15	4629.1	1716.33	41.5	22.94	24.98	
10-Feb-06	7m	79.85	4581.85	1630.45	57.35	39.81	45.95	
10-Mar-06	8m	89.5	4656.05	1653.82	68.76	49.62	55.94	
10-Apr-06	9m	98.35	4689.45	1675.2	78.19	58.33	64.09	
11-May-06	10m	104.95	4991.35	1750.39	84.68	58.59	66.19	
9-Jun-06	11m	79.35	3829.4	1321.88	56.72	57.13	66.31	
11-Jul-06	12m	79.15	3683.7	1232.61	56.47	60.75	73.05	
11-Aug-06	13m	89.75	4324.65	1470.95	69.04	57.28	67.94	
11-Sep-06	14m	86.05	4528.9	1561.79	64.83	48.45	57.73	
11-Oct-06	15m	100.05	5206.4	1799.11	79.9	49.59	58.66	
10-Nov-06	16m	115	5757.95	1877.19	93.83	53.44	68.34	
11-Dec-06	17m	130.7	5790.6	1901.56	106.6	65.68	79.85	
11-Jan-07	18m	137.55	5748.75	1807.91	111.7	71.51	90.01	
9-Feb-07	19m	151.65	6184.45	1871.58	121.5	73.96	96.3	
9-Mar-07	20m	121.25	5187.85	1528.44	99.12	69.16	94.19	
11-Apr-07	21m	150.45	5276.65	1583.39	120.7	89.04	112.2	
11-May-07	22m	154.35	5682.45	1833.89	123.3	84.19	100.1	
11-Jun-07	23m	161.85	6161.25	1975.11	128	80.85	97.43	
11-Jul-07	24m	185.15	6794.7	2255.45	141.5	84.51	97.61	
10-Aug-07	25m	182.35	6646.05	2264.71	139.9	85.2	95.67	
11-Sep-07	26m	183.95	6815.6	2310.36	140.8	83.55	94.55	
11-Oct-07	27m	194.55	8158.8	2637.09	146.4	71.17	86.93	
9-Nov-07	28m	222.55	8760.75	2864.8	159.8	77.5	92.09	
11-Dec-07	29m	262.25	10090.7	3277.7	176.3	79.78	95.04	
11-Jan-08	30m	258.45	10561.55	3333.26	174.8	73.76	91.9	
11-Feb-08	31m	229.6	8419.25	2866.75	163	84.59	95.14	
11-Mar-08	32m	193.8	7356.4	2550.51	146	81.14	89.88	

Table 1.1: Computed Buy and Hold Abnormal Returns for Yes Bank

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	11-Apr-08	33m	160.9	6838.45	2352.43	127.4	69.83	79.36				
	9-May-08	34m	163.2	7299	2418.75	128.8	64.73	78				
	11-Jun-08	35m	136.6	5971.25	1909.45	111	67.02	83.85				
	11-Jul-08	36m	116.95	5240.7	1734.26	95.51	64.54	77.94				

Source: Self Computed

## Table 1.2: Computed Buy and Hold Abnormal Returns for Central Bank of India

Date	Holding Period Since Listing (HP <sub>L</sub> )	Closing Stock Price (Pi)	Closing CNX Bank Index (BI)	Closing CNX PSU Bank Index (PI)	Simple Under- pricing (UPS)	CNX Bank Index Adjusted Underpricing (UPA <sub>BI</sub> )	CNX PSU Index Adjusted Underpricing (UPA <sub>PI</sub> )
21-Aug-07	1d	115.3	6210.45	2064.14	12.26	16.68	17.22
20-Sep-07	1m	140.8	7390.15	2460.2	32.24	19.27	19.65
19-Oct-07	2m	122.65	7423.8	2285.35	18.44	5.02	13.22
20-Nov-07	3m	135.6	9277.85	3058.36	28.47	-7.24	-5.88
20-Dec-07	4m	130.9	9245.45	3050.21	24.95	-10.42	-9.14
18-Jan-08	5m	129.6	9739.9	3207.26	23.95	-16.63	-15.16
20-Feb-08	6m	102.5	9129.1	3047.79	0.49	-33.61	-33.51
19-Mar-08	7m	78.9	6456.55	2180	-25.68	-25.14	-26.17
17-Apr-08	8m	95.9	7165.05	2412.13	-6.17	-16.04	-16.78
20-May-08	9m	93.15	7459.2	2420	-9.08	-22.97	-20.01
20-Jun-08	10m	74	5758.6	1839.34	-32.09	-20.11	-15.59
18-Jul-08	11m	57.2	5389.15	1820.95	-57.84	-39.23	-40.34
20-Aug-08	12m	60.4	6026.3	2024.92	-52.40	-44.96	-45.51
19-Sep-08	13m	53.5	6312.05	2229.92	-64.53	-61.73	-67.29
20-Oct-08	14m	41.25	5284.2	2070.61	-90.53	-69.95	-85.88
20-Nov-08	15m	35.15	4086.9	1651.7	-106.53	-60.26	-79.28
19-Dec-08	16m	40.7	5144.15	1935.66	-91.87	-68.61	-80.48
20-Jan-09	17m	38.9	4402.35	1701.59	-96.40	-57.56	-72.12
20-Feb-09	18m	35.4	3934.4	1529.18	-105.83	-55.75	-70.86
20-Mar-09	19m	32.1	3691.7	1394.79	-115.61	-59.17	-71.45
20-Apr-09	20m	45.15	5009.2	1909.88	-81.50	-55.58	-68.76
20-May-09	21m	73.9	7144.75	2622.73	-32.23	-41.81	-51.21
19-Jun-09	22m	85.1	7223.55	2573.4	-18.11	-28.80	-35.20
20-Jul-09	23m	95.05	7530.2	2655.52	-7.06	-21.90	-27.28
20-Aug-09	24m	99.1	7261.2	2573.64	-2.88	-14.09	-19.98
18-Sep-09	25m	124.3	8379.25	3109.44	19.77	-5.75	-16.23
20-Oct-09	26m	144.25	9476.4	3581.11	34.66	-3.17	-15.47
20-Nov-09	27m	157.8	9219.05	3448.85	43.64	8.56	-2.73
18-Dec-09	28m	142.35	8599.95	3204.5	33.33	5.21	-5.69
20-Jan-10	29m	158.2	9126.35	3317.38	43.89	9.82	1.41
19-Feb-10	30m	158.3	8487.1	3015.09	43.95	17.15	11.03
19-Mar-10	31m	151.05	9270.8	3231.12	39.26	3.63	-0.58
20-Apr-10	32m	153.8	9446.1	3367.46	41.07	3.56	-2.91
20-May-10	33m	147.8	9174.6	3506.04	37.09	2.49	-10.92
18-Jun-10	34m	143.8	9576.25	3567.81	34.35	-4.53	-15.41
20-Jul-10	35m	152.05	9976	3835.78	39.92	-3.05	-17.08
20-Aug-10	36m	185.35	11033.75	4354.61	59.73	6.68	-9.96

Source: Self Computed

Date	Holding Period Since Listing (HP <sub>L</sub> )	Closing Stock Price (Pi)	Closing CNX Bank Index (BI)	Closing CNX PSU Bank Index (PI)	Simple Under- pricing (UPS)	CNX Bank Index Adjusted Underpricing (UPA <sub>BI</sub> )	CNX PSU Index Adjusted Underpricing (UPA <sub>PI</sub> )
1-Mar-07	1d	98.35	5388.95	1643.36	7.77	4.97	6.07
30-Mar-07	1m	90.2	5308.5	1607.76	-0.88	-2.18	-0.39
30-Apr-07	2m	115.5	5621	1761.61	23.84	16.83	15.19
31-May-07	3m	127.65	6324.5	2027.42	33.84	15.04	11.14
29-Jun-07	4m	127.7	6740.1	2200.61	33.88	8.71	2.98
31-Jul-07	5m	150.7	6928.45	2310.84	50.44	22.52	14.66
31-Aug-07	6m	143.1	6675.85	2230.77	45.27	21.06	13.01
28-Sep-07	7m	159.9	8042.2	2667.83	56.37	13.54	6.22
31-Oct-07	8m	154.05	9013.15	2791.15	52.64	-1.59	-2.03
30-Nov-07	9m	190.85	9375.75	3044.96	74.06	15.89	10.69
31-Dec-07	10m	194.2	9863.45	3246.07	75.80	12.56	6.03
31-Jan-08	11m	205.85	9226.25	2990.36	81.63	25.06	20.06
29-Feb-08	12m	204.45	8688.35	2926.96	80.95	30.39	21.52
31-Mar-08	13m	163.95	6655	2249.1	58.87	34.97	25.79
30-Apr-08	14m	139	7629	2529.24	42.36	4.80	-2.46
30-May-08	15m	122.35	6584.35	2124.6	29.60	6.77	2.22
30-Jun-08	16m	88.45	5027.05	1617.49	-2.84	1.31	-2.96
31-Jul-08	17m	96.1	5730.05	1975.44	5.45	-3.48	-14.65
29-Aug-08	18m	126.75	6102.05	2034.42	33.14	17.91	10.09
30-Sep-08	19m	129.2	5803.55	2070.41	35.05	24.84	10.25
31-Oct-08	20m	128.05	4521.7	1638.33	34.16	48.91	32.76
28-Nov-08	21m	123.65	4291.15	1673.22	30.66	50.64	27.16
31-Dec-08	22m	136.85	5001.55	1929.02	40.80	45.47	23.07
30-Jan-09	23m	122.35	4456.55	1704.62	29.60	45.80	24.24
27-Feb-09	24m	86.45	3892.4	1491.85	-5.13	24.61	2.84
31-Mar-09	25m	82.2	4133.2	1566.09	-10.17	13.56	-7.06
29-Apr-09	26m	100.8	5130.95	1885.78	10.23	12.34	-5.23
29-May-09	27m	137.2	7416	2700.64	41.06	6.33	-10.32
30-Jun-09	28m	146.3	7338.85	2641.27	47.48	13.80	-1.67
31-Jul-09	29m	143.8	7544.5	2689.95	45.76	9.31	-5.22
31-Aug-09	30m	136.85	7431.65	2623.8	40.80	5.87	-7.69
30-Sep-09	31m	163.8	8812.35	3209.73	58.78	6.80	-9.87
30-Oct-09	32m	156.05	8438.6	3190.22	53.93	6.29	-14.10
30-Nov-09	33m	164.9	9046.95	3351.15	59.45	4.84	-13.51
31-Dec-09	34m	174.55	9029.5	3342.96	65.14	10.72	-7.58
29-Jan-10	35m	179.65	8651.55	3185.53	68.02	17.88	0.13
26-Feb-10	36m	164.05	8722 75	3099.12	58 93	7 98	-6.21

Table 1.3: Computed Buy and Hold Abnormal Returns for Indian Bank

Source: Self Computed

Table 1.4: Computed Buy and Hold Abnormal Returns for Punjab and Sind Bank	
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Date	Holding Period Since	Closing Stock	Closing CNX Bank	Closing CNX PSU	Simple Under-	CNX Bank Index Adjusted	CNX PSU Index Adjusted
	Listing (HP.)	(Pi)	Index (BI)	Index (PI)	(UPS)	(UPA <sub>BI</sub> )	(UPA <sub>PI</sub> )
30-Dec-10	1d	127.15	11629.3	4413.17	5.79	5.65	5.63
28-Jan-11	1m	109.6	10578.25	4101.53	-9.07	0.27	-1.90
28-Feb-11	2m	103.95	10435.35	4125.5	-14.36	-3.67	-7.77
29-Mar-11	3m	105.1	11582.5	4416.45	-13.26	-13.00	-13.49
29-Apr-11	4m	110.3	11483.75	4385.75	-8.43	-7.31	-7.96
27-May-11	5m	102.05	10722.65	3796	-16.20	-8.23	-1.29
29-Jun-11	6m	101.25	11153.35	3888.4	-16.99	-12.95	-4.49
29-Jul-11	7m	95.8	10893.65	3842.3	-22.52	-16.13	-8.83
29-Aug-11	8m	72.8	9342.45	3211.4	-49.98	-28.22	-18.34
29-Sep-11	9m	65.9	9653.4	3264	-59.94	-41.45	-29.93
28-Oct-11	10m	73.95	9917.05	3200.75	-48.41	-32.62	-16.45
29-Nov-11	11m	68.55	8623.9	2986	-55.99	-26.23	-17.08
29-Dec-11	12m	60	8027.4	2624.65	-69.31	-32.39	-17.51
27-Jan-12	13m	71.8	9813.65	3278.6	-51.36	-34.53	-21.80
29-Feb-12	14m	82.75	10414.2	3563.7	-37.17	-26.27	-15.94
29-Mar-12	15m	76.3	9927.65	3301.8	-45.28	-29.60	-16.43
28-Apr-12	16m	72.25	10212.65	3285.1	-50.74	-37.89	-21.37
29-May-12	17m	64.75	9708.1	3136.25	-61.70	-43.78	-27.70
29-Jun-12	18m	69.2	10340.65	3259.7	-55.05	-43.45	-24.91
27-Jul-12	19m	63.8	10140.55	2868.4	-63.17	-49.62	-20.25
29-Aug-12	20m	59.8	10011.9	2697.8	-69.65	-54.81	-20.59
28-Sep-12	21m	67.95	11456.8	3369.5	-56.87	-55.52	-30.04
29-Oct-12	22m	66.25	11472.15	3222.9	-59.41	-58.19	-28.13
29-Nov-12	23m	66.1	11992.8	3242.55	-59.63	-62.85	-28.96
28-Dec-12	24m	71.45	12458.15	3645.9	-51.85	-58.88	-32.91
29-Jan-13	25m	72.6	12722.8	3674.3	-50.25	-59.38	-32.09
28-Feb-13	26m	61.9	11487.35	3136.6	-66.20	-65.11	-32.21
28-Mar-13	27m	58.25	11361.85	3048	-72.27	-70.09	-35.42
29-Apr-13	28m	61	12609.15	3309.05	-67.66	-75.89	-39.02
29-May-13	29m	59.5	12853.2	3135.15	-70.15	-80.30	-36.12
28-Jun-13	30m	53.3	11617.25	2743.8	-81.16	-81.19	-33.79
29-Jul-13	31m	48.35	10331	2392.6	-90.90	-79.21	-29.84
29-Aug-13	32m	37	8904.6	1951.25	-117.66	-91.10	-36.20
27-Sep-13	33m	39.95	9899.75	2180.25	-109.99	-94.03	-39.63
29-Oct-13	34m	42.7	11241.65	2348.25	-103.33	-100.08	-40.39
29-Nov-13	35m	44.75	11153.95	2505.45	-98.64	-94.61	-42.18
30-Dec-13	36m	43.85	11376	2541.9	-100.67	-98.61	-45.66

Source: Self Computed

	Table 1.5.	computed b	buy and hold i	Aphormal Kei	ums for onit	eu balik ul illula	
Date	Holding Period Since Listing (HP <sub>L</sub> )	Closing Stock Price (Pi)	Closing CNX Bank Index (BI)	Closing CNX PSU Bank Index (PI)	Simple Under- pricing (UPS)	CNX Bank Index Adjusted Underpricing (UPA <sub>BI</sub> )	CNX PSU Index Adjusted Underpricing (UPA <sub>PI</sub> )
18-Mar-10	1d	68.65	9252.3	3198.55	3.94	3.24	3.53
16-Apr-10	1m	72.6	9353.75	3310.65	9.53	7.75	5.68
17-May-10	2m	78.45	9526.5	3494.53	17.28	13.67	8.03
17-Jun-10	3m	80.6	9613.4	3567.81	19.98	15.46	8.66
16-Jul-10	4m	86.35	10013.45	3819.82	26.88	18.28	8.72
17-Aug-10	5m	103.7	10770.25	4363.44	45.18	29.30	13.73
17-Sep-10	6m	116.6	12104.1	4724.52	56.91	29.35	17.50
15-Oct-10	7m	131.55	12346.45	4937.99	68.97	39.43	25.14
16-Nov-10	8m	126.35	12524.45	4948.94	64.94	33.97	20.89
16-Dec-10	9m	104.7	11424.15	4416.15	46.14	24.37	13.48
17-Jan-11	10m	91.4	10471.1	4018.53	32.56	19.49	9.33
17-Feb-11	11m	97.05	11134.7	4337.4	38.56	19.34	7.70
17-Mar-11	12m	103.3	10851.95	4207.55	44.80	28.16	16.98
15-Apr-11	13m	108.35	11735.65	4504	49.57	25.10	14.94
17-May-11	14m	99.6	10668.85	3919.8	41.15	26.21	20.41
17-Jun-11	15m	94.1	10598.25	3740.55	5 35.47 21.20		19.41
15-Jul-11	16m	96.8	11234.55	4002.65	38.30	18.19	15.47
17-Aug-11	17m	82.15	9953.2	3516.05	21.89	13.89	12.02
16-Sep-11	18m	77.65	9720.25	3251.5	16.26	10.63	14.21
17-Oct-11	19m	72.8	9721.3	3221.15	9.81	4.17	8.70
17-Nov-11	20m	59.1	8930.9	2999.8	-11.04	-8.20	-5.03
16-Dec-11	21m	55.4	8171.9	2813.2	-17.51	-5.78	-5.07
17-Jan-12	22m	62.5	9056.7	3006.25	-5.45	-4.01	0.35
17-Feb-12	23m	84.05	11074.9	3842.4	24.18	5.50	5.43
16-Mar-12	24m	71.65	10391.35	3528.25	8.21	-4.09	-2.00
17-Apr-12	25m	74.8	10519.55	3562.75	12.52	-1.01	1.33
17-May-12	26m	56.1	9154.2	2862.8	-16.25	-15.88	-5.56
15-Jun-12	27m	63.3	10064.8	3250.1	-4.18	-13.29	-6.18
17-Jul-12	28m	60.05	10558.05	3281.75	-9.45	-23.34	-12.42
17-Aug-12	29m	54	10417.9	2839.8	-20.07	-32.63	-8.57
17-Sep-12	30m	59.75	10981.65	3060.9	-9.95	-27.78	-5.95
17-Oct-12	31m	64.7	11358.25	3297.85	-1.99	-23.19	-5.45
16-Nov-12	32m	66.95	11335.5	3189.2	1.43	-19.57	1.32
17-Dec-12	33m	77.2	12427.45	3585.1	15.67	-14.52	3.86
17-Jan-13	34m	79.5	12649.6	3785.5	18.61	-13.36	1.36

12336.55

11816.55

3374.9

3320.8

1.50

-9.78

Table 1.5: Computed Buy and Hold Abnormal Returns for United Bank of India

Source: Self Computed

35m

36m

67

59.85

15-Feb-13

15-Mar-13

-27.96

-34.94

-4.27

-13.93

	Table 2.1 Absolute relative wealth muck (rwf) of Shareholders for IPO investments																	
HP <sub>L</sub> (in Months)	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes Bank	1.35	1.59	1.62	1.49	1.48	1.58	1.51	1.77	1.99	2.19	2.33	1.76	1.76	1.99	1.91	2.22	2.56	2.9
Central Bank	1.13	1.38	1.20	1.33	1.28	1.27	1.0	0.77	0.94	0.91	0.73	0.56	0.59	0.52	0.40	0.34	0.40	0.38
Indian Bank	1.08	0.99	1.27	1.40	1.40	1.66	1.57	1.76	1.69	2.10	2.13	2.26	2.25	1.80	1.53	1.34	0.97	1.06
Punjab & Sind Bank	1.06	0.91	0.87	0.88	0.92	0.85	0.84	0.80	0.61	0.55	0.62	0.57	0.50	0.60	0.69	0.64	0.60	0.54
United Bank	1.04	1.10	1.19	1.22	1.31	1.57	1.77	1.99	1.91	1.59	1.38	1.47	1.57	1.64	1.51	1.43	1.47	1.24

Table 2.1 Absolute Deletius Weelth Index (DWII) of Sheveholders' for IDO investments

# Source: Self Computed

Table 2.2 Absolute Relative Wealth Index (RWI) of Shareholders' for IPO investments

HPL (in Months)	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36
Yes Bank	3.06	3.37	2.69	3.34	3.43	3.6	4.11	4.05	4.09	4.32	4.95	5.83	5.74	5.1	4.31	3.58	3.63	3.04	2.6
Central Bank	0.35	0.31	0.44	0.72	0.83	0.93	0.97	1.22	1.41	1.55	1.4	1.55	1.55	1.48	1.51	1.45	1.41	1.49	1.82
Indian Bank	1.39	1.42	1.41	1.36	1.5	1.34	0.95	0.9	1.11	1.51	1.61	1.58	1.5	1.8	1.71	1.81	1.92	1.97	1.8
Punjab & Sind Bank	0.58	0.53	0.5	0.57	0.55	0.55	0.6	0.61	0.52	0.49	0.51	0.5	0.44	0.4	0.31	0.33	0.36	0.37	0.37
United Bank	1.18	1.1	0.9	0.84	0.95	1.27	1.09	1.13	0.85	0.96	0.91	0.82	0.91	0.98	1.01	1.17	1.2	1.02	0.91

# Source: Self Computed

### VI. Discussions

Yes Bank Ltd. is the only private bank which got listed during our study period on 12 July 2005 with a huge premium as reflected in the RWI value of 1.35 indicating shareholders' gained 35 percent in absolute terms immediately at the end of first day of trading. The simple under pricing, adjusted Bank Index under pricing and adjusted PSU Bank Index underpricing values stood at 30.17, 28.95 and 28.93 percent respectively. The UPA values indicate not much difference in the IPOs listing performance when compared to both the benchmark indices. The overall long term trend of the BHAR is depicted below in the following Chart 1.1.





The above chart reflects the trend of BHAR computations where we can see that in terms of simple underpricing Yes Bank IPO was able to sustain its abnormal gain throughout the study period and generated return as high as 176 percent in the 29<sup>th</sup> month from its listing. It is important to notice that the IPOs performance is better in terms of CNX PSU Bank Index than the CNX Bank Index. The IPOs performance got subdued during the third year once the index started performing better with the gap between the blue line and brown line getting wider.

The remaining four IPOs are all issued by PSU banks with Central Bank of India leading the pack in terms of issue size of Rs.816 Crores. The IPO was issued at Rs. 102 which got listed at a modest premium of 12.26 percent in terms of UPS whereas it was underpriced to the extent of 17.22 percent when benchmarked with its PSU peer index. But such positive gains soon got wiped off from the third month onwards. Thereafter throughout the study period it maintained its negative slide barring a couple of months in the  $29^{th}$  and  $30^{th}$  month where it just managed to keep afloat in the green with respect to UPA<sub>BI</sub>. Such a dismal picture bellied all expectations of the investors and surely CBI will find it difficult in the coming days to procure funds again from the primary market through a Follow-on Public Offer (FPO) issue. The Chart 1.2 given below presents the long term trend of the BHAR computations.



The trends in Chart 1.2 clearly indicate that neither in the short run nor in the long run the IPO was able to make its investors happy. It breaks-even its negative trend for a very short spell and dipped in to red again. We notice that that during the mid period mostly in the second year the blue line went into the red thereby indicating investors were made to bleed with a negative return but what is more interesting to observe is that the brown and green line were quite above the blue line, even though they were all in the negative zone. This signifies that the IPO stock was bleeding more than that of the Index.

Next in the line with an issue size of Rs. 782.15 Crores was the IPO of Indian Bank Ltd which got listed on March 1, 2007 with a RWI value of a meager 1.08 and a UPS and UPA<sub>PI</sub> value of 7.77 and 6.07 percent respectively. Surprisingly the IPO performed quite better in the second year of holding when benchmarked with the CNX Bank Index whereas the entire third year was miserable as reflected in the UPA<sub>PI</sub> values. The Chart 1.3 presented below depicts the long term trend of the IPO in terms of the three key parameters.



Chart 1.3: Trend of BHAR computation of Indian Bank

Chart 1.3 depicts a very interesting situation that the IPO was able to beat the market during the period from 20<sup>th</sup> month upto 26<sup>th</sup> month with respect to the CNX Bank Index as the brown line was able to move above the blue line but in terms of its own peer index CNX PSU Bank it never managed to generate anything in excess

over and above. During the remaining phases the IPO gave marginally better returns over and above the index adjusted returns. The closer the brown or green trendline is to the blue line; higher is the adjusted abnormal return of the IPO. So clearly the IPO was not able to give abnormal return in the long run.

Let us now consider the Punjab and Sind Bank IPO which got listed on December 30, 2010 with a listing gain of mere 5.59 percent in terms of  $UP_S$  to close the first day at Rs. 127.15. Within a month of holding investors started bleeding with BHAR values for  $UPA_{BI}$  and  $UPA_{PI}$  stood at 0.27 and -1.90 respectively. The entire period of three years produced negative returns and at some stages it even touched a -100.08 percent when compared with the CNX Bank Index. This was the worst performing IPO amongst all the PSU banks studied by us. The following chart 1.4 shows the trends lines representing relevant under pricing movements of the IPO based on our computations of Table 1.4.





The trendlines clearly indicates the blood bath that investors suffered during the entire period of three years. We notice that the blue line was below the green and brown line for the major part of the observation period which implies that the IPO was bleeding more than the poor performance of the Indices. Infact the overall market condition was negative but the IPO bled more than the market indices. This gives us a clear picture how worse the IPO both in the short run as well as in the long run as it could not even managed to perform in line with its own sectoral indices.

The last of the pack is the IPO of United Bank of India which was issued at Rs. 66 and got listed on NSE on 18 March, 2010. The listing premium was not much significant and it was underpriced to the extent of 3.94 percent based on UP<sub>s</sub> computations. The IPO performed better during the first 18months of its listing where it able to generate double digit abnormal return adjusted with the benchmark indices but during the remaining phase it went deep into red and was an underperformer in comparison to the indices. We present the computed BHAR as trendlines in the following Chart 1.5 for a better understanding of its return.



Chart 1.5: Trend of BHAR computation of United Bank of India

The trend lines remained in the positive zone till the 19<sup>th</sup> month with blue line over and above the brown and green lines thereby indicating that the IPO performed well in comparison to the indices. We can generalise that closer the brown or green line is to the blue line, the better it is for the investors as it indicates that the IPO is outperforming the market indices. At the end of the observation period between 32m to 35m we notice that the blue line was in the positive territory whereas the brown line was in the negative. This suggests that during this period the Index was a better performer in comparison to the IPO.

We conclude our discussion with the following Chart 1.6 which shows the RWI of the investors' in absolute terms. The RWI values could have been made more meaningful had we adjusted it with the Consumer Price Index and Government Bonds interest rate to determine and assess the inflation and interest adjusted wealth index which would have given a much better picture of the real gain in investors' wealth.



#### Chart 1.6: Relative Wealth Index (RWI) of Banking IPOs

The trendlines depicting the RWI values of five banking companies presents not so encouraging picture of wealth gain in absolute terms of the issue price. All four PSU banks remained closely hugged to the unit value line and couldn't even stretch beyond the index value 2 indicating thereby that investors failed to double their investments within these three years tenure. The worst is the Punjab and Sind bank where investors bled throughout thereby eroding investors' wealth. Yes Bank was the only private bank in our study which was able to multiply investors' wealth. Out of the four PSUs the Indian Bank performed reasonably good followed by UBI.

### VII. Conclusion

Based on our study of the banking IPOs we do not observe any encouraging signs for the general investors to expect better returns out of these IPOs. The long term performance is not at all satisfactory and the only silver lining was that of the Yes Bank IPO. Abnormal returns, if any, during the initial listing was not sustained in the long run and as such there is no strong premise in support of investments in the hope of getting better returns than the benchmark Index. If this condition prevails, PSU banks might not be the preferred choice of the investors for future IPO investments and can make bankers and issue managers work overtime to garner requisite capital for BASEL III compliance in the coming days ahead.

### Footnotes:

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Year	Companies	Issue Size	Offer	Offer price	Issue Price	Date of
i cai	p	(Rs.Cr.)	Period	(Rs.)	(Rs.)	Listing
2005	Vec Donk Itd	70	15-21 June	20.45	45	12 July
2005	Tes Bank Llu	70	2005	38-45	45	2005
2007		04.6	24-27 July	05 402	102	21 Aug
2007	Central Bank of India	816	2007	85-102	102	2007
2007	Indian Bank	782.15	5-9 Feb	77-91	91	1 Mar 2007
	indian bank		2007			
2010		470.82	13-16 Dec	113-120	120	30 Dec
	Punjab and Sind Bank		2010			2010
2010	United Bank of India	32/1 98	23-25 Feb	60-66	66	18 March
	Shited Bark Of India	524.50	2010	00-00	00	2010