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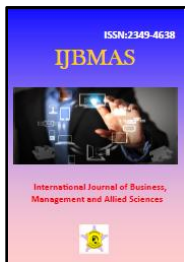
**LISTING AND WEEK DAY PERFORMANCE OF IPOS: AN EVIDENCE FROM  
2006-2015**

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**ABSTRACT**

An Initial Public Offering (IPO) is the first time that the security of a company is offered to the public. This process of equity offering is followed by the companies under the rules and regulations or the guidelines prescribed by Securities Exchange Board of India (SEBI). IPO is the major source of capital for firm to raise their capital for their business Replacement, Expansion, Modernization, Diversification or the host of any other purpose. The pricing of IPOs is one of the most puzzling phenomena in finance. It is tough to predict its prices on listing day of trading in Capital market. It is totally depends upon the Market trend, Issue Price, Issue time, Issue age, Issue size, reputation of Book Running Lead Managers (BRLM), No. of Bidding centers. Etc... In this study the researcher tried to examine the pricing performance of IPOs at the time of Listing day pertaining to 295 companies in India during the period 2006-2015, listed in National Stock Exchange (NSE) India. In this research study the researcher has studied 295 companies Issue price and its performance in listing day and week day.

Keywords: SEBI, NSE, BRLM, Bidding Centers

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**INTRODUCTION**

Initial Public Offering is the process by which a company can go public by sale of its shares to several public. It could be a new, young or an old company which decides to be listed on exchange and hence goes to public. IPOs rank top among the largest sources of capital for the firms in India to launch their business ventures or for business expansion. Under pricing is the pricing of the IPO at less than the fair value of the issue. The degree of under pricing differs from country to country and issue to issue in the same country. The under pricing of the IPO is a loss of capital to the issuing company but gain for the investors as it yields them positive abnormal initial return. All the relevant literatures conclude that average IPOs are undervalued at the offer price as the first day market price is the indication of intrinsic value or fair value of the stock. IPOs generate positive abnormal listing day return (i.e. underpriced) followed by negative abnormal return for a reasonably long period. The over pricing of IPOs refers to the price when issue price is lower than the listing day price. In this case

the listing companies lose their money due to investor's low interest in getting more shares. Jindal and Chandler (2015) described in their study that the IPOs are often underpriced or overpriced due to the Investor's behavioral contours while making investment decisions like whether to invest or not in IPO shares for making profits.

## REVIEW OF LITERATURE

This study extensively reviewed previous research studies which were based on IPO performances in the short run and long run, and their impact on investor behavior. Various studies have been found on the concept of under pricing phenomena of IPOs.

Peng (2008) described the long run IPO performance, the Shanghai Stock exchange index was used as a benchmark. These studies analyzed the aftermarket performance by using the cumulative abnormal returns (CAR) and buy and hold abnormal return (BHAR). It showed that IPO over performance in six months after listing day and recorded under performance after six months of listing.

Mishra (2009) studied the performance of the Indian IPOs from April 2001 to March 2009 for the long run. Results show that there exist positive returns on the listing day. It is found that the down-market is a major cause for the poor listing-day performance of the negative group, whereas a positive group does not gain anything from an up-market preceding the IPO. With respect to the average holding-period return, for the negative group (starting day-1, not day-0) becomes significant only after four years, while it is positive throughout for the positive group. The study concluded that IPOs in the long yield a return equal to the market, when initial return is ignored.

Sahoo & Rajib(2010) focused on the evaluation of price performance of 92 Indian IPOs issued during the period 2002-2006 up to a period of 36 months including the listing day and also examined the usefulness of IPO characteristics at the time of issue to seek an explanation for the post-issue price performance. It reported that on an average the Indian IPOs are underpriced to the tune of 46.55 per cent on the listing day compared to the market index. The empirical results suggest that the investors who are investing in IPOs through direct subscription are earning a positive market adjusted return throughout the period. Nevertheless, investors who have purchased shares on the IPO listing day are earning negative returns up to 12 months from the listing date and expect to earn positive market-adjusted return thereafter.

Bansal &Khanna(2012) analyzed that there is significant difference between the magnitudes of level of underpricing of IPOs that priced through the book build with those priced through the fixed price option and IPOs price through book build are more underpriced than fix price option IPOs

Mani Jindal (2017) analyzed risk return performance of IPOs during the period 2014-2015. This study shows that the IPOs are underpriced during the study period, it is clear that the null hypothesis that IPOs are fairly priced, neither underpriced nor overpriced is rejected. This study shows that the IPOs record positive IPO returns in different time spans and three measures also conclude that the IPOs over performed, which means the investors earned more returns from their investment in the study period under low index performance.

## OBJECTIVES OF THE STUDY

The main objectives of this study is as follows

1. To measure the listing day and week day performance of IPOs during the sample period
2. To find out the return on IPOs
3. To identify the factors affecting the listing day performance of IPOs

## RESEARCH METHODOLOGY

**I) Time duration of Study:** To analyze the performance of the IPOs on the listing day, the required data has been collected from the period January 2006 to December 2015 of the companies which came up with the Initial public offers (IPO).

**II) Data Collection:** NSE official website is used to collect list of IPOs for analysis from the period of January, 2006 to December, 2015. Respective company prospectus is used to get details regarding the issue price, issue time and market index for calculation of market index returns

**III) Sample Selection:** The sample used in this study consists of all Indian firms which went public on National Stock Exchange (NSE) from January 2006 to December 2015. Data is taken of 295 companies for the analysis.

**Table 1: Details of data relating to IPOs in INDIA during 2006-2015**

YEAR	NO.OF PUBLIC ISSUES IN THE YEAR
2006	73
2007	94
2008	36
2009	21
2010	71
2011	41
2012	12
2013	6
2014	8
2015	21
<b>TOTALS</b>	<b>383</b>

The total number of IPOs listed in NSE during the period 2006-2016 is 383

**Table 2: Information of Sample Size in Select companies**

YEAR	NO.OF PUBLIC ISSUES IN THE YEAR	FOLLOW ON PUBLIC OFFER	ISSUE CANCELLED AND WITHDRAWN	LISTED ONLY AT BSE	LISTING AT NSE				
					PREMIUM ISSUES	ISSUES WITHOUT PREMIUM	LISTING BEYOND 3 MONTHS	INFORMATIO N NOT AVAILABLE	FINAL SAMPLE
2006	73	8	0	4	61	1	4	5	51
2007	94	2	2	4	86	1	2	9	74
2008	36	0	3	3	30	0	0	1	29
2009	21	0	0	0	21	0	0	0	21
2010	71	4	2	6	59	0	2	1	56
2011	41	2	2	5	32	1	3	3	25
2012	12	0	2	0	10	0	0	1	9
2013	6	0	2	0	4	0	0	0	4
2014	8	1	2	0	5	0	0	0	5
2015	21	0	0	0	21	0	0	0	21
<b>TOTALS</b>	<b>383</b>	<b>17</b>	<b>15</b>	<b>22</b>	<b>329</b>	<b>3</b>	<b>11</b>	<b>20</b>	<b>295</b>

The researcher has selected 295 companies

**IV) Sources of Data:** This study was totally based on secondary data. The information related to the analysis of market return (Mi), listing day return (Ri) and Market Adjusted Abnormal Return (MAAR) was taken from the NSE website and related websites. Other relevant information was obtained from books, journals and magazines.

**V) Methods for Data Analysis:**

**Measure of IPOs Performance:** Consistent with the standard methodology, return of particular day is calculated as the percentage change from the issue price to the closing price on that day in the secondary market.

$$(1) Ri = [(Pi-P0)/P0]*100$$

Where,  $R_i$  = return of  $i$  security on listing day  
 $P_i$  = Closing Price of  $i$  security on listing day  
 $P_0$  = offer price of  $i$  security.

Secondly, to calculate index return on listing day,

$$(2) M_i = [(I_i - I_0)/I_0] * 100$$

Where,  $M_i$  = market return on listing day  
 $I_i$  = closing index at listing day  
 $I_0$  = closing index at offer day.

$$(2) MAER = [(P_i - P_0)/P_0] - [(I_i - I_0)/I_0] * 100$$

Where, MAER = Market Adjusted Excess Return

**VI): Limitations of the study:** The study has not taken all the IPOs that were issued only 2006-2015.

- It limits only to the issues with issue size of around Rs.10 crores that to premium issues only
- Due to the limitations of follow on public offer, issue cancelled & withdrawn and listed only at BSE some of the companies are not taken into the sample
- The other limitation is sample excluded from less than par issues, listing beyond three month and the companies for which the information is not available.

### ISSUE PRICE

Issue Price is the price at which a company's shares are offered to the market for the first time, which might be at par or at a premium or discount. When they begin to be traded, the market price may be above or below the issue price.

### LISTING PRICE

Listing refers to the company's shares being on the list (or board) of stock that are officially traded on a stock exchange. The SEBI has issued a guideline on the time taken for the listing of public issues is after it has closed for subscription will be reduced from existing 12 days to six days.

**Table 3: Listing day Returns and Market Returns of IPOs Listed in NSE during 2006 - 2015**

Sample Size (No)	Issue Price (Rs/-)	Characteristics	Average		
			Raw Returns (%)	Market Returns (%)	MAER (%)
295	All	Mean	11.81	0.15	-0.07
		Maximum	241	17.21	21.04
		Minimum	-94.57	-16.03	-18.46
		SD	40.48	5.42	5.67

It is universally found that, the purchase on the very first day of trading earns the investors a high return. Table: 3 examine the significant underpricing for the IPOs listed on the National Stock Exchange during Jan 2006 - December 2015. As summarized in the Table: 3, the IPOs show the average raw return of 11.81 per cent and the Mean Market Adjusted Excess Return (MAER) of -0.07 per cent with Nifty. The maximum and minimum values of raw returns are 241 per cent and -94.57 per cent respectively. The standard deviation for initial returns or raw returns is 40.48% and Market Adjusted Excess Return is 5.67%.

In the sample selected for the study, there are 3 par (Rs. 10) issues and 295 premium (>Rs. 10) issues. It clearly reveals the positive and statistically significant initial returns across all price groups...

### LISTING DAY PERFORMANCE BY ISSUE PRICE

The effect of Issue-Price is a price at which one new share is offered to general public. According to Daily et al (2003), Shelly and Singh (2010) information contained in prospectus send signals, intentionally or otherwise, to potential investors. The investors use this information in determining price at which they will be willing to purchase IPO shares on listing day. One of the signals, included amongst others, is the issue price. They found that initial price of an IPO offering may carry value as an indicator of underpricing. It is the investment banker who is entrusted with responsibility for assessing the pre-market demand for prospective IPO in an effort to set the offer

price. Presumably, a very low issue price may signal little demand, little value or both. Based on the above discussion,

**Table 4: listing day Returns of IPOs by Issue Price**

Issue Price (Rs/-)	No. of Issues (No)	Characteristics	Average		
			Raw Returns (%)	Market Returns (%)	MAER (%)
Between 11-50	27	Mean	8.26	-0.32	0.40
		Maximum	82.5	8.56	10.10
		Minimum	-94.57	-10.48	-8.42
		SD	-39.95	4.75	4.66
Between 51-100	58	Mean	-0.14	-0.51	0.69
		Maximum	123.4	10.67	15.64
		Minimum	-71.28	-16.03	-11.36
		SD	42.15	6.26	6.39
Between 101-150	60	Mean	19.8	-0.35	0.54
		Maximum	240.96	10.75	13.99
		Minimum	-55.82	-14.28	-10.65
		SD	45.8	5.71	5.64
Between 151-200	43	Mean	9.33	1.05	-0.96
		Maximum	183.94	15.82	7.79
		Minimum	-81.32	-8.07	-15.46
		SD	40.91	5.29	5.25
>200	107	Mean	13.41	0.55	-0.42
		Maximum	178.92	17.21	14.38
		Minimum	-68.93	-14.86	-17.90
		SD	40.33	4.97	5.00

As displayed in Table 4, it clearly reveals that, the positive and statistically significant initial returns across all offer price ranges, except price range of 51-100, it shows negative average returns of -0.14 percent. The maximum average raw return is 19.80 percent at the price range of between 101-150 and MAERs with respect to offer price indicates that larger returns are associated with 0.69 per cent at the given price range between 51 - 100.

#### WEEK DAY PERFORMANCE BY ISSUE PRICE

A week period in stock market is to be considered as five days. It is the period of the difference between listing day of security in stock market and its performance after five days of its listing date. The initial day returns are impact on one week day of trading.

**Table 5: Week day Returns and Market Returns of IPOs Listed in NSE during 2006 - 2015**

Sample Size (No)	Issue Price (Rs/-)	Characteristics	Average		
			Raw Returns (%)	Market Returns (%)	MAER (%)
295	All	Mean	9.58	-0.014	0.43
		Maximum	220.7	18.46	19.97
		Minimum	-93.57	-89.53	-29.57
		SD	44.32	9.47	6.16

It is to be found that the mean value of listing day compared with a week day performance it was decreased from 11.81 to 9.58 percent purchase on the very first day of trading earns the investors a high return compared with week day returns. Table: 5 examine the maximum and minimum values

of raw returns are 220.7 per cent and -93.57 per cent respectively. The standard deviation for initial returns or raw returns is 44.32 and Market Adjusted Excess Return is 6.16.

**Table: 6 Week day Returns of IPOs by Issue Price**

Issue Price (Rs/-)	No. of Issues (No)	Characteristics	Average		
			Raw Returns (%)	Market Returns (%)	MAER (%)
Between 11-50	27	Mean	6.75	0.75	-0.69
		Maximum	82.44	11.93	12.12
		Minimum	-93.57	-12.21	-11.41
		SD	47.02	6.18	6.07
Between 51-100	58	Mean	-11.34	-0.59	0.43
		Maximum	191.92	12.93	19.97
		Minimum	-84.79	23.54	-29.57
		SD	44.94	6.97	6.16
Between 101-150	60	Mean	24.18	-0.37	0.61
		Maximum	220.71	12.21	20.07
		Minimum	53.17	-19.46	-11.39
		SD	52.88	6.19	6.13
Between 151-200	43	Mean	7.72	1.23	-1.15
		Maximum	184.02	18.46	9.73
		Minimum	-80.18	-9.97	-18.32
		SD	41.35	6.15	6.12
>200	107	Mean	8.13	1.58	-1.49
		Maximum	164.45	17.15	14.40
		Minimum	-91.35	-15.31	-17.66
		SD	40.57	4.83	4.83

As displayed in Table 6, it clearly reveals that, for a in week day performance of IPOs the positive and statistically significant Raw returns across all Issue price ranges, except price range of 51-100, it shows negative average returns of -11.34 percent. The maximum average raw return is 24.18 percent at the price range of 101-150 and MAERs with respect to offer price indicates that larger returns are associated with 0.61 per cent at the given price range between 101 - 150. As the issue price increases, the average returns also increased. So, see-saw pattern emerges for raw and market-adjusted excess, different segments of issue price.

**Table 7: Year wise Listing and Week day performance of IPOs**

YEARS	LISTING DAY				WEEK DAY			
	MEAN	MAXIMUM	MINIMUM	SD	MEAN	MAXIMUM	MINIMUM	SD
2006	12.01	82.5	-28.96	26.56	12.72	116.2	-51.37	32.38
2007	25.62	240.96	-68.93	56.18	22.5	220.71	-91.35	57.94
2008	-2.83	97.61	-94.57	40.88	-6.57	71.67	-93.57	37.87
2009	-3.36	129.25	-67.39	39.01	-10.135	81.4	-67.41	33.06
2010	12.24	102.69	-36.71	28.64	7.37	150.53	-74.27	42.09
2011	0.09	97.76	-68.71	45.46	-1.76	123.4	-71.28	52.67
2012	8.88	25.64	-12.88	13.67	12.27	29.92	-7.11	14.37
2013	4.17	15.53	-5.93	10.37	7.46	27.33	-8.09	15.07
2014	26.52	69.78	-12.04	33.52	34.43	82.44	-12.54	41.74
2015	10.01	50	-17.54	19.37	11.14	51.85	-19.33	21.44

As displayed in Table 7, it clearly reveals that, on listing day performance of IPOs, there are positive returns except the years 2008 and 2009. These two years shows negative average returns i.e.; -



2.83 and -3.36. The highest positive returns across all the ten years sample period existed in the year 2007. In case of week day performance the highest positive returns across all the ten years sample period existed in the year 2014.

### Findings

- Overall primary issue market has faced downward sloping growth in terms of number of IPO due to global economic crisis.
- The total number of public issues over 2006-2015 time period were 295.
- The average years wise first day return of the all companies listed in NSE from 2006-2015 were 12.01%, 25.62%, -2.83%, -3.36%, 12.24%, 0.09%, 8.88%, 4.17%, 26.52%, 10.01 % respectively.
- The averages years wise a week after first day return of the all companies listed in NSE from 2006-2015 were 12.72%, 22.5%, -6.57%, -10.135%, 7.37%, -1.76%, 12.27%, 7.46%, 34.43%, 11.14 % respectively.
- The performance of IPOs were compared to first day with a week after first day returns of all companies listed in NSE from 2006 to 2015 were increased especially in the years 2006, 2012, 2013, 2014 and 2015 respectively. In the remaining years the i.e.; 2007, 2008, 2009, 2010, and 2011 were decreased.

### Conclusion

The research tried to find out the initial day returns and the factors affecting the degree of under pricing. The data for the research has been taken of total 295 IPOs listed on NSE between the periods 2006-2015. The grand average returns for above mention IPOs was 9.33 % and 8.94% respectively in listing day and a week day performance. It indicates that the Indian IPOs performance in selected time period is decreasing. The explanatory variable like Issue price has impact on it. So investors should invest in IPOs for long term returns.

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