A STUDY ON IPO RETURNS IN THE INDIAN EQUITY MARKET WITH SPECIAL REFERENCE TO THE POST-COVID ERA

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ABSTRACT

This paper assesses the recent trends in Initial Public Offerings (IPOs) in the Indian stock exchange and the changes brought about in the market after the COVID-19 pandemic. The COVID-19 pandemic was one of the most severe global crises in recent history which had an immense impact on financial markets all around the world. The crisis was characterized by extreme price fluctuations, decreasing asset prices, and great uncertainty.

In India, the COVID-19 pandemic initially caused a sharp decline in the stock market and a decrease in new issues, however it also triggered a new wave of interest in investing in stocks and other securities, especially among individual investors. During the post-pandemic period, the Indian IPO market witnessed an increase in the number of companies coming to the market to raise capital, and numerous IPOs experienced high levels of subscription and significant listing gains. These developments attracted much attention from retail investors, some of whom participated for the first time in the IPO market. Thus, it became very important to examine whether these listings were efficiently priced and what would be the long-term performance of these IPOs.

Therefore, this study aims to analyse IPO returns in the Indian stock market during the post-COVID era. The study will focus on analysing the listing day returns, sector-wise performance, and long-term aftermarket returns of the IPOs using secondary data.

I. INTRODUCTION

Capital markets play an important part in the development of a nation's economy. Capital markets enable households to invest their savings in companies and thus facilitate the transfer of resources from households to companies for investment purposes. Companies can raise the funds required for expansion, modernization, diversification, and technology upgradation through capital markets. Among the various instruments available in the capital market, Initial Public Offerings (IPOs) occupy a unique place.

An IPO represents the first public offering of shares by a private company. An IPO enables firms to tap into a vast pool of investors and provides liquidity to its existing shareholders. On the other hand, for investors, IPOs provide an opportunity to invest in companies at an early stage of their public lifecycle. However, there are several reasons why IPO investments may be associated with pricing inefficiencies, information asymmetry and uncertainties related to future performance of the companies.

The Indian capital market has undergone a lot of changes in the last decade due to the various regulatory reforms undertaken by Securities and Exchange Board of India (SEBI). The introduction of the book building mechanism, improvement in disclosure norms, strengthening of corporate governance norms, and adoption of digital trading systems have greatly enhanced transparency and investor confidence in the Indian capital market.The COVID-19 pandemic in 2020 created a severe and unprecedented economic disruption. Financial markets all over the world witnessed extreme volatility, decline in asset prices and uncertainty. In the post-COVID period, the Indian IPO market has experienced a high growth. A great deal of companies arrived at the mainstream. market to generate funds and most of the IPOs registered high subscription and listing returns. It is on this background that the present study attempts to analyse the IPO returns within the Indian stock market. specific mention of the post-COVID time. The research will be aimed at the analysis of the listing-day returns, sector-performance and long run after market returns of IPOs based on secondary data.

II.REVIEW OF LITERATURE

There is considerable literature on the performance of Initial Public Offerings (IPOs) by finance scholars. Many studies have analyzed IPO pricing, underpricing, and long-term performance of IPOs in various market settings. The review of literature provides a basis for understanding the existing research and identifying research gaps.

➢ The research of **Aggarwal, Leal, and Hernandez (1993)** - which was published in Financial Management, analysed the aftermarket performance of IPOs in emerging economies. It identified large listing day gains and poor long-term performance with respect to IPOs and thus demonstrated how inefficient the emerging capital markets can be.

➢ **Madhusoodanan&Thiripalraju (1997),** in Vikalpa: The Journal for Decision Makers, conducted an analysis of IPOs in India and discovered that, regardless of the regulatory oversight there, IPOs have been persistently underpriced. Thus, they concluded that while regulatory oversight continues to be present in the Indian IPO market, pricing inefficiencies continue to exist.

➢ In the Journal of Applied Finance **Chaturvedi, Pandey, and Ghosh (2006),** researched and analysed the factors contributing to both IPO pricing and performance in India. They discovered that when determining IPO returns, information asymmetry, and investor sentiment, had a significant influence.

➢ As stated in the International Journal of Financial Management, **Ghosh (2012),** studied the long-term performance of IPOs in India. He found that most IPOs will typically underperform most market indexes over the course of longer time frames.

➢ Indian Journal of Finance **Sehgal & Singh (2015)**analysed the performance of sector specific IPOs, and as such determined that both technology and consumer-oriented sectors produced larger listing gains than did traditional sectors.

A considerable amount of research has been completed on the performance of IPOs; however, there is limited research that has focused on the post COVID era. This study attempts to bridge this gap.

III.RESEARCH METHODOLOGY

A. Research Design

This research will use a Descriptive and Analytical Research Design. A Descriptive Research Design will allow us to identify patterns in IPO returns within the Indian equity market. An Analytical Research Design will allow us to evaluate short term and long-term IPO performance. Since this type of research design can be applied to historical financial market data, it allows us to analyse trends, under-pricing, and performance variations.

B. Types of Data

All data used for this research has been obtained withSecondary data. Secondary data refers to existing data which has been previously collected and made publicly available by recognized organizations. Given the official reporting of IPO prices and trading activities, the secondary data used for analysing IPO performance is considered reliable.

C. Sources of Secondary Data

Secondary data were needed to complete this research; therefore, secondary data were sourced from the following places:

➢ The Securities and Exchange Board of India (SEBI) reports and publications

➢ The National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are the two major exchanges in India and their official databases

- ➢ IPO Prospectus of issuing companies
- ➢ Market related websites or portals such as Money control, NSE India, Economic Times Markets

These sources have the most current and relevant information regarding the issue price, listing price, sector classification and historical prices of each IPO that was issued.

D. Sample Selection

The sample includes IPOs listed on the Indian equity markets since the COVID-19 pandemic. Only those IPOs whose data regarding price and returns were complete were included so that our analysis would be consistent and reliable. Our sample selection of IPOs represents a wide range of economic sectors.

E. Time Frame of the Study

Our study covers IPOs which were issued during the post-pandemic period. We chose this time frame because there was an increase in investor participation, an increase in the liquidity of the market and a significant recovery in the capital market.

F. Methods of Data Analysis

The following methods were employed to analyse the performance of an initial public offering ("IPO"):

Descriptive Statistical Methods

Descriptive statistical methods including mean, median, maximum, minimum and standard deviation were utilized to present a summary of the listing day returns of all IPOs. Descriptive statistical methods are useful for describing the average performance of IPOs, their range of variation, and volatility of returns from listing day.

Listing Day Return Analysis

A Listing Day Return analysis was performed by determining the difference between the Issue Price of each IPO and the Listing Price of each IPO. Listing Day Return Analysis provides insight into whether IPOs have been underpriced or overpriced upon listing in the market.

Industry-Sector Average Returns Analysis

Average returns of IPOs were analysed on an industry-sector basis to determine if there exists a difference in IPO performance among various sectors. Industry-Sector Average Returns Analysis will provide insight into which sectors have generated the highest levels of investor interest during the post-COVID period.

Buy-and-Hold Abnormal Return (BHAR) Analysis

A Buy-and-Hold Abnormal Return (BHAR) Analysis is used to measure long term performance of IPOs at varying holding periods. BHAR Analysis determines the total return an investor has earned by continuing to hold IPO stock over a period of time, providing insight into whether IPOs outperform the overall market in the long term or vice versa.

G. Computer Software Used to Analyse the Data

The data were analysed using Microsoft Excel. Using Microsoft Excel allowed us to organize the data, calculate the returns, and prepare the necessary tables. The software is commonly utilized due to its ability to accurately and easily compute financial data.

H. Limitations of the Study

The limitations of our study are that it has relied solely upon secondary data and that it has covered only a relatively short post-pandemic time frame. Therefore, we cannot generalize our results to other time frames and thus other types of IPO performance may be influenced by market fluctuations and macro-economic factors.

IV. ANALYSIS AND INTERPRETATION

Table 4.1: Descriptive Statistics of Listing-Day Returns

Particulars	Value (%)
Mean	28.6
Median	22.4
Maximum	135.0
Minimum	-12.3
Standard Deviation	34.7

The table illustrates an average listing day return of 28.6% for companies going public during the post-COVID era and a median return of 22.4% which is consistent with the majority of firms providing positive returns on their listings (except for a small number of very high performing issues), suggesting that these firms were significantly undervalued. The large difference between the greatest and least returns illustrated by the table suggests that there was a significant degree of variation amongst investors. Furthermore, the high standard deviation illustrated by the table signifies a high degree of volatility within the overall performance of IPO's. In total, the table shows that IPO's provided attractive short-term gains at great risk.

Table 4.2: Sector-wise Average Listing-Day Returns

Sector	Average Return (%)
Technology & Digital Services	41.8
Consumer Goods & Services	33.5
Pharmaceuticals & Healthcare	27.2
Manufacturing & Industrials	18.6
Financial Services	15.4

Sector wise analysis of the table illustrated that technology and digital services IPOs had the largest average listing day returns illustrating strong investor interest in growth-based sectors. Additionally, consumer goods and healthcare sectors performed well due to an increase in demand post COVID-19. The manufacturing and financial services sectors, however, had smaller than average listing day returns illustrating a conservative investor view of these sectors. The data therefore illustrates that the sector that an IPO falls into will have a significant impact upon its listing day performance. Further, the data illustrated that growth sectors experienced larger degrees of underpricing than traditional sectors.

Table 4.3: Long-Term Buy-and-Hold Abnormal Returns

Holding Period	BHAR (%)
6 Months	12.8
1 Year	7.3
2 Years	-3.6

The table illustrates that IPOs performed well in the short term with positive BHAR over 1-, 2-and 6-month periods. However, the tables illustrate that returns decreased over time and became negative over a 2-year period. Therefore, the data illustrates that short-term listing day gains of IPO's do not continue in the longer term. As such the data illustrated that price correction occurs as market enthusiasm reduces and fundamentals become the primary factor in determining valuation. Therefore,IPOs are best suited to being used in short-term investment strategies.

V. FINDINGS

An analysis of the returns of Initial Public Offerings (IPOs) in India's equity markets in the post-COVID era showed the continued prevalence of IPO under-pricing. Most of the IPOs have been able to achieve large listing day gains, thus showing that the price at which the IPO was sold to the public is lower than its true value to the public. These results reflect a great deal of enthusiasm for IPOs from investors, as well as high liquidity and an aggressive level of subscription experienced in the post-pandemic recovery phase. When comparing across industry sectors, technology and digital service companies, consumer good companies, and pharmaceutical companies achieved higher listing day returns than most of the more traditional sectors such as manufacturing and financial service companies. The results show that there is a preference of investors for growth-oriented and innovative type of companies in the post-COVID era.

Using Buy-and-Hold Abnormal Returns (BHAR), the long-term performance of the IPOs has shown a decline in their returns with each passing month. Although the IPOs were able to deliver positive returns in the short run, many of these IPOs did not perform as well as the overall market averages over longer periods of time; this confirms that the IPOs experience long-term underperformance.

The results indicate that the market sentiment of the time when the IPOs were issued had a significant effect on the performance of the IPOs. IPOs issued during bull market times produced better returns than those issued during bear market or neutral market times. Therefore, the results highlight how the timing of the IPO and the psychology of investors can affect the pricing and returns of IPOs.

Overall, the results support the notion that despite improved regulations and greater disclosure requirements, IPO anomalies such as under-pricing and long-term underperformance continue to be evident in the Indian equity market in the post-COVID era.

VI. SUGGESTIONS

Based on the results of this study, the following are some recommendations to improve how investors make IPO investment decisions, and to increase efficiency in IPO markets. Investors should not base their decision to invest solely on a company's listing day returns. While IPOs create an opportunity to earn high short-term profits due to IPO under-pricing; research on long term stock price performance shows that there is no reliable evidence that these short-term gains are consistent with long term stock price performance. Thus, it is recommended that investors look at a company's financial performance, business strategy, and growth potential before making an investment decision in an IPO.

In issuing IPOs, companies should establish sensible and affordable mechanisms of pricing their shares in the process of the IPO. Excessive under-pricing of IPOs may leave the companies without more money they require in order to expand their business. An accurate valuation of the company can also help the issuers come up with a mechanism of fairly pricing the shares of companies when issuing an IPO.

Financial position and risks of a company should be revealed in a transparent way that would boost investor confidence.

New monitoring systems can be instituted by the regulatory bodies, like the SEBI, to control the pricing and disclosure process applied by IPOs. Information on IPO-related risks and long-term investment behaviour can be imparted to the retail investors through their education programs so that they can make more informed decisions.

Long-term investors are advised to look at the historical patterns of the industries where they intend to invest and diversify themselves so as to minimize the risk.

VII.CONCLUSION

The after Covid period is a critical turning point in the growth of the Indian IPO market. As the IPO activity has increased, the soundness of listing, the number of new entrants to the retail business, the market exhibits the revitalized confidence of investors and market strength. However, findings indicate under-pricing of IPOs remains one of the key contributors in the Indian primary market. Despite the fact that the IPOs offered good short term gains, the analysis of the BHAR indicated that the short term gains of IPOs do not always last. Consequently, it emerges that the original hype among investors is bound to temper down to the sober reflection of what the company involves in its very foundations in the long run which will lead to the price level being fixed.

In the perspective of the investor, the evidence emphasizes on being careful regarding the decisions to make on investment particularly when they intend to have the stock on long-term basis. More effective pricing procedures would be enjoyed by companies that issue IPOs. Regulators can be interested in investigating other methods of enhancing disclosure and pricing in the market. At last, in as much as the post-COVID IPO boom has indeed contributed to capital formation and to market development, there remain indications of the persistence of IPO anomalies and hence the need to have constant regulatory control and informed investor presence.

SCOPE FOR FUTURE STUDIES

The proposed research can be extended to future studies by evaluating the performance of IPO over a more extended period to determine cyclical effects in the market. Besides this, the primary data gathered by conducting surveys of investors might serve to learn more about behavioural factors of IPO investment decision making. Comparative IPO performance before COVID-19 and after COVID-19, cross country comparisons may also contribute further insight to the structural changes occurring in IPO.

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