

LINKAGE BETWEEN LARGE CAP IPO PERFORMANCES IN INDIA AND VOLUME
TRADED WITH SPECIAL REFERENCE TO INDIAN STOCK MARKET

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Abstract: Initial public offering (IPO) is the process by which a firm decides to raise capital from the public and sells its equity shares to the public for the first time. Private company list themselves on stock exchanges to issue IPO to raise capital from general public to become a public company. The companies enjoy the benefit of not repaying capital to the investor in its lifetime. The company also gets the advantage of visibility in the public than traditional financing like loans etc. and an opportunity to improve their market capitalization. The general belief of investors who are attracted towards investing in IPOs is that IPO will provide better return as they can buy low and sell high. It is this particular belief among investors that stock prices of large cap companies will most probably increase after an IPO and hence they rush to subscribe for large cap IPOs which has good fundamentals and are offered at a reasonable price. This paper studies the linkage between large cap IPO performances and to check the effect on volume traded immediately preceding the IPOs of large cap companies in NSE. In other words, to check if there is any linkage between IPO subscriptions and volume traded in NSE.

Key words: IPO, Impact, NSE, Large cap, Volume trading

Introduction:

Stock market is one of the most promising sectors in an Indian economy for raising the bars of Indian financial system. The volatility index of a stock market can measure the directions of an economy. An Efficient and effective stock market is where prices of the security are show all related information with its true worth. Indian capital market has been providing opportunities to Indian business to expand, modernize and diversify through fund raising from the public by issuing part of their ownership in the form of shares. Initial public offering (IPO) is the process where a firm seeking to expand, decides to raise capital from the public and sells its equity shares to the public for the first time.

A company going for initial public offering will have to transform itself as it will have to meet new requirements and obligations as a public listed company. It might have undergone corporate

restructuring as it will be exposed to more sources of capital, acquire new skills and change the working the business not necessarily changing the vision or mission of the company. The entire process of IPO is very time consuming and the will pay the way to new challenges which the company must be prepared to take. Based on their current market capitalization, stocks are classified into large-cap, mid-cap, and small-cap. Market capitalization of a company refers to the total number of its outstanding shares in the market multiplied by the current price per share.

Large cap stocks are the first class in market capitalization. As the name itself suggests, these are stocks of well-established companies that have been around for years. The market capitalization of these companies is very high – above Rs20,000 cr.

Large-cap companies have strong market presence and their stocks are generally considered to be very safe (low risk). Most of these companies regularly disclose information through media, such as newspapers. In other words, information on large-cap companies is very readily available. In India, examples of large-cap companies include Wipro, TCS, and Infosys, among others.

The market stays attractive because of strong domestic liquidity and good market earnings. Increase in investors' confidence and increase in participation in the equity markets by the investors are expected to result in successful listing across sectors.

Objectives:

- The main purpose of the research is to recognize if there is any linkage between large cap IPO performances and volume traded in Indian stock market
- How much return large cap IPO's generated on listing day
- To check if oversubscription of a particular IPO had an impact on volume traded on that particular day and give relevant suggestions to investors

Methodology:

The research is exploratory in nature. Secondary data are used and data sources are NSE official website is used to collect list of IPOs for analysis from Jan 2019 – Nov 2020.

Review of Literature:

Mr. Vikas Gupta and Mr. Nitin Saxena (2016) Studies how market reacts on price of IPO on initial day of listing and impact of Issue size and issue price. The data for the research has been taken of total 113 IPOs listed on NSE between the periods 2010-2014. The study indicated that the Indian IPOs are underpricing and the explanatory variable like Issue size and issue price has impact on it.

S S S Kumar (2010) studies how IPO performs when issued through the book building process in India from the period 1999 to 2006. The sample comprises of 156 firms that offered were offered

through the book building process on the NSE. Initially, upon listing the IPO offered positive returns on an average (after adjusting for market movements) to investors and a large part of the closing day returns on the listing day were accounted for by the opening returns. Whereas, In the long run the IPOs offered positive returns up till twenty-four months but gradually they underperform the market.

Aydin Yüksel and Yüksel, Asli (2006), they examine the relation between share retention, initial return, and trading volume. Share retention is the difference between number of shares outstanding after the IPO and number of shares offered scaled by number of shares outstanding after the IPO. Initial return is defined as the relative price change from the offering price to the market price at the end of the first day of trading adjusted by the market return on the first day. Trading activity is measured by turnover, which is defined as daily trading volume scaled by the number of shares outstanding and have taken their data in Istanbul stock exchange. Although our paper focuses on Indian stock market, this paper was reviewed as they have examined similar topics like initial return and trading volume which is helpful for our paper.

Ravi Kiran, Rohini Inder Chopram Phil (2011) made an analysis of IPO pricing from listing day to 6 months and a long term analysis up to 3 years after listing. It shows that if an investor buys and holds the equities, how much he is going to earn over the considered time period. They also make an analysis of factors influencing IPO pricing like issue price and Subscription level.

Iqbal Thonse Hawaldar, K.R. Naveen Kumar & T. Mallikarjunappa | (2018) examines listing day performance of IPOs, book-built and fixed-price IPOs, post-listing aftermarket performance of IPOs, book-built and fixed-price IPOs in the Indian stock market. The study covers 15 years from the financial year 2001 to 2015. Analysis of the results reveals that compared to fixed-price IPOs, book-built IPOs are underpriced by lesser magnitude. Moreover, book-built IPOs are associated with negative cumulative average abnormal returns (CAARs) up to five years and beyond, the negative CAARs associated with fixed-price IPOs turn positive after one and one-half year and continue to be positive thereafter.

Sample selected for this research (Secondary data from NSE)

Year (19 - 20)	Name of large cap IPO's listed in NSE	Issue Open	Issue close	Issue Price	Subscription (times)	Volume traded on date of listing
1.	<u>Xelpmoc Design and Tech Limited IPO</u>	Jan 23, 2019	Jan 25, 2019	66.00	3.25 times	80,614.00

2.	<u>Chalet Hotels Limited IPO</u>	Jan 29, 2019	Jan 31, 2019	280.00	1.75 times	9,442,180
3.	<u>MSTC Limited IPO</u>	Mar 13, 2019	Mar 20, 2019	120.00	1.46 times	421,066
Year (19 - 20)	Name of large cap IPO's listed in NSE	Issue Open	Issue close	Issue Price	Subscription (times)	Volume traded on date of listing
4.	<u>Rail Vikas Nigam Limited IPO</u>	Mar 29, 2019	Apr 3, 2019	19.00	1.83 times	89,144,982
5.	<u>Metropolis Healthcare Limited IPO</u>	Apr 3, 2019	Apr 5, 2019	880.00	5.84 times	7,279,787
6.	<u>Polycab India Limited IPO</u>	Apr 5, 2019	Apr 9, 2019	538.00	51.88 times	22,985,293
7.	<u>Neogen Chemicals Limited IPO</u>	Apr 24, 2019	Apr 26, 2019	215.00	41.18 times	1,358,653
8.	<u>IndiaMART InterMESH Limited IPO</u>	Jun 24, 2019	Jun 26, 2019	973.00	36.21 times	7,561,613
9.	<u>Affle (India) Limited IPO</u>	Jul 29, 2019	Jul 31, 2019	745.00	86.48 times	8,361,975

10.	<u>Spandana Sphoorty Financial Ltd IPO</u>	Aug 5, 2019	Aug 7, 2019	856.00	1.05 times	4,632,064
11.	<u>Sterling and Wilson Solar Ltd IPO</u>	Aug 6, 2019	Aug 8, 2019	780.00	1.02 times	4,599,673
Year (19 - 20)	Name of large cap IPO's listed in NSE	Issue Open	Issue close	Issue Price	Subscription (times)	Volume traded on date of listing
12.	<u>Vishwaraj Sugar Industries Ltd IPO</u>	Sep 30, 2019	Oct 4, 2019	60.00	1.12 times	1,086,937
13.	<u>IRCTC Limited IPO</u>	Sep 30, 2019	Oct 3, 2019	320.00	112 times	45,270,607
14.	<u>CSB Bank Limited IPO</u>	Nov 22, 2019	Nov 26, 2019	195.00	44.46 times	37,124,674
15.	<u>Ujjivan Small Finance Bank Ltd IPO</u>	Dec 2, 2019	Dec 4, 2019	37.00	110.72 times	251,414,527
16.	<u>Prince Pipes and Fittings Ltd IPO</u>	Dec 18, 2019	Dec 20, 2019	178.00	2.21 times	21,159,947
17.	<u>SBI Cards and Payment Services Ltd IPO</u>	Mar 2, 2020	Mar 5, 2020	755.00	26.54 times	60,893,377

18.	<u>Rossari Biotech Ltd IPO</u>	Jul 13, 2020	Jul 15, 2020	425.00	2.97 times	35,781,623
19.	<u>Happiest Minds Technologies Ltd IPO</u>	Sep 7, 2020	Sep 9, 2020	166.00	150.98 times	52,002,289
Year (19 - 20)	Name of large cap IPO's listed in NSE	Issue Open	Issue close	Issue Price	Subscription (times)	Volume traded on date of listing
20.	<u>Route Mobile Ltd IPO</u>	Sep 9, 2020	Sep 11, 2020	350.00	73.3 times	29,189,660
21.	<u>Computer Age Management Services Ltd IPO</u>	Sep 21, 2020	Sep 23, 2020	1,230.00	1.93 times	13,180,743
22.	<u>Chemcon Speciality Chemicals Limited IPO</u>	Sep 21, 2020	Sep 23, 2020	340.00	12.65 times	15,779,162
23.	<u>Angel Broking Ltd IPO</u>	Sep 22, 2020	Sep 24, 2020	306.00	3.94 times	8,546,238
24.	<u>Likhitha Infrastructure Ltd IPO</u>	Sep 29, 2020	Oct 7, 2020	120.00	9.51 times	1,394,388
25.	<u>UTI Asset Management Company Ltd IPO</u>	Sep 29, 2020	Oct 1, 2020	554.00	2.3 times	10,808,276

26.	<u>Mazagon Dock Shipbuilders Limited IPO</u>	Sep 29, 2020	Oct 1, 2020	145.00	157.41 times	39,929,204
27.	<u>Equitas Small Finance Bank Ltd IPO</u>	Oct 20, 2020	Oct 22, 2020	33.00	1.95 times	23,099,679
28.	<u>Gland Pharma Limited IPO</u>	Nov 9, 2020	Nov 11, 2020	1,500.00	2.06 times	11,310,647

Findings and interpretation:

The general belief of investors who are attracted towards investing in IPOs is that IPO will provide better return as they can buy low and sell high. It is this particular belief among investors that stock prices of large cap companies will most probably increase after an IPO. Hence the investors rush to subscribe for large cap IPOs which has good fundamentals and are offered at a reasonable price. The above table shows the details of large cap IPO subscriptions from Jan 2019 – Nov 2020. The findings shows that the shares of large cap companies with good fundamentals are all over subscribed and the number of times they have been subscribed has also been mentioned.

The volume traded on the date of listing and subsequent listing dates have also been analyzed and we can derive that if a company has been oversubscribed like in the case of happiest minds where subscription has caused 150 times, the volume traded has been the highest only on the listing day and the volume traded has been falling since then. Happiest minds IPO has been one of the most successful IPO's of this year. This leads to a conclusion that happiest mind subscription was done solely for the purpose of speculation and taking advantage of listing day prices where companies with good fundamentals are offered at a reasonable price.

Over subscription of IPO's doesn't have a drastic impact on the overall volume traded in the NSE as there are other players like FIIs, DIIs, apart from individual investors who actively participate in the market.

Conclusion:

Large cap companies with good fundamentals are often tend to be oversubscribed as the investors are looking to take advantage to listing prices. These IPOs are more attractive to the investors as companies with good fundamentals are offered at a very reasonable price. The investors can take advantage of this and get very good return which in a short period if they get an allotment. In the case of Happiest minds IPO, the share price were issued at 166 Rs and the entire lot was issued at approx.15000 Rs. This company was oversubscribed and if an investor were to sell the shares on the day of listing, the profits would have amounted to 17000Rs and happiest minds subscriptions have been one of the most successful IPO subscriptions of this year.

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