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Performance analysis of post-pandemic initial public offering's

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Abstract

The process through which an unlisted company can become a listed one by selling its shares to the general public is known as an initial public offering (IPO). Companies are using an IPO to raise capital by issuing its new shares to the public. Primary market is where new securities are first offered for sale and after its listing, shares can be traded over secondary market. IPO's can be a golden opportunity for the companies planning to expand and diversify their business, from the perspective of investors IPO's can be a good source of earning higher dividends and long-term capital appreciation. Since COVID-19 pandemic, which created a devastated impact on the almost all the sectors of our economy, IPO's during this period suffered a lot. Some companies struggled to get a right price for their IPO's, while for some it was overpriced. Therefore, it can be assumed, COVID-19 pandemic has a significant impact on the performance of IPO's especially from the context of Indian stock market. The study attempts to analyse the pricing of IPO's and the value of share premium on listing day. Further the study evaluates the current and progressive performance of IPOs on the base of its listing status. The study analysis 27 newly listed IPOs in the post pandemic period of six months from the date of issue *i.e.*, October 2021 to March 2022. The study found 19 companies have under-priced shares, while 8 companies have overpriced. Out of 27 IPO's, 15 IPO's have generated positive returns and performed well throughout the study period, 10 IPO's have given negative returns and 2 IPO's have shown volatility at each month but generated positive returns overall. Furthermore, the study observes that majority of the IPOs issued during post pandemic period has performed well. The study would help investors in increasing their understanding towards IPO's and to take necessary precautions while selecting the IPOs into their portfolio.

Keywords: Initial public offering, COVID-19 pandemic, share premium, listing

Introduction

For decades, the term "initial public offering" has been a buzzword on Corporate America and among investors around the world. The Dutch East India Company issued shares to the general public was the first modern IPO. Since then, IPOs have been a popular way for businesses to generate funds from the general public by issuing shares (Khan, 2021) [4]. Since the 1991 LPG reforms, the Indian IPOs have seen a variety of reforms, structural modifications, policy reformulation, technical developments, and other organizational changes. As a result, the Indian IPO market has exploded, with a surge in the number of companies going public and issuing equity shares in the market (Marisetty, Group affiliation and the performance of initial public offerings in the indian stock market, 2010) [5]. Companies want large pool of funds for their expansion and diversification program and this requirement can be met effectively by initial public offerings. Each year hundreds of companies go public by listing their shares to the exchanges and try to achieve full subscription by attracting potential investors through different kind of promotional activities (Chellasamy, 2021) [2]. A sometimes share goes to over subscription while sometimes under subscription, but companies always try to achieve full or over subscription. Once company goes public, they try to attain maximum value of their shares into the market and the value of shares depends upon the underlying value of companies (Harshadbhai Mehta, 2015) [3]. Among all these, face value and issue price of shares plays a crucial role in determining IPO's performance. IPO's can either be under-priced or overpriced; it all depends upon share issue price and closing listing day price, if issue price is above the closing price, then it's called as overpriced shares lead to initial loss while below the closing price called as under-priced shares lead to initial gain to investors (Baig, 2021) [1].

This study would be focusing upon the performance of post pandemic IPO's; The IPO's released after COVID-19 Pandemic. COVID-19 Pandemic has a significant impact on the Indian stock market; therefore, study tries to analyse the performance of newly introduced IPOs after pandemic.

Review of literature

Avdhesh Kumar Shukla and Tara Shankar Shaw (2018) ^[8] they studied post-issue performance of IPO firms in India. The study discovered that IPO firms' post-issue operating performance, as evaluated by return on asset and turnover ratio, had dropped dramatically and return on sales and sales growth didn't show any significant change after issue.

Manu and Saini (2020) ^[7] the study analysis the post-Initial Public Offer (IPO) performance of various companies gone public in 2017. According to the study, around 70% of the selected IPOs are under-priced in the short run, and the movement of these IPOs in the short run is unaffected by the company's age, issue size, ownership sector, or the promoter's holdings after the issue.

Khan, M.A., Zeeshan, K., Ahmad, M.F., Alakkas, A.A., & Farooqi, M.R. (2021) ^[4] have studied the Stock Performance of Select IPOS in India. The study revealed that IPO which are under-pricing are yielding higher returns. The study also advises investors to sell overpriced shares by the end of the first day of trading to minimize losses, and to keep investments for more than one year for better returns on under-priced shares.

Mazumder S and Saha P (2021) ^[6] The study investigates the link between COVID-19-related fear and IPO performance in the short run. The findings reveal that while the average market-adjusted initial return on IPOs in 2020 is better than in the previous four decades, it drops as pandemic concern rises. IPO firms' performance is more susceptible to the risk of a pandemic than identical existing firms' performance.

Ahmed Baig and Mengxi Chen (2021) ^[1] In their research, Did the COVID-19 Pandemic (Really) Have a Positive Impact on the IPO Market? they discovered that IPOs during the pandemic face more information uncertainty than those before it. Furthermore, as the pandemic and its related government countermeasures get more severe before the offering, we find that an average IPO firm sees greater under-pricing and post-IPO return volatility. Overall, the COVID-19 outbreak had a negative influence on the IPO

market.

Objectives of the study

1. To evaluate the performance of IPOs on the listing day.
2. To evaluate the performance of IPOs during post pandemic.

Methodology

The study has been undertaken on the 27 IPO's released during post-pandemic period from October 2021 to March 2022. The study is descriptive and analytical in nature. Secondary data have been used in the study, collected from various sources *i.e.*, annual reports of the respective company, official website of BSE (www.bseindia.com) and other websites such as (www.chittorgarh.com and www.moneycontrol.com). MS excel was used in order to analyse the data gathered from Secondary data sources.

Results and discussions

The analysis of data mainly comprises of two components: analysis the performance of IPOs on the listing day and analysis the performance of IPOs during post pandemic period.

Performance of IPOs on the listing day

The study observed issue price and the listing day closing price to understand the performance of IPOs on the listing day. The IPO's can be classified into under-price or overpriced depends upon the difference between issue price and the listing day closing price, if the difference is positive *i.e.*, issue price is above the closing price, then it's an overpriced share and if the difference is negative *i.e.*, issue price below the closing price, then it's an under-priced share.

The standard measurement model followed to measure the IPO's performance

$$IR_i = P_{i1} - P_{i0} / P_{i0}$$

Were,

IR_i = initial return from security i on listing day.

P_{i1} = Closing price of IPO on the listing day.

P_{i0} = issue price of the IPO ^[5].

Table 1: Performance of IPO'S on the listing day

| Company Name | Date of Issue | Issue Price | Closing Price | Initial Return | IRi | Performance |
|---|---------------|-------------|---------------|----------------|--------|--------------|
| Paras Defence and Space Technologies Ltd. | 1-Oct-21 | 175 | 498.75 | 323.75 | 185 | Under Priced |
| Aditya Birla Sun Life AMC Ltd. | 11-Oct-21 | 712 | 699.65 | -12.35 | -1.73 | Over Priced |
| FSN E-Commerce Ventures Ltd. | 10-Nov-21 | 1125 | 2206.7 | 1081.7 | 96.15 | Under Priced |
| Fino Payments Bank Ltd. | 12-Nov-21 | 577 | 545.25 | -31.75 | -5.50 | Over Priced |
| Sigachi Industries Ltd. | 15-Nov-21 | 163 | 603.75 | 440.75 | 270.40 | Under Priced |
| PB Fintech Ltd. | 15-Nov-21 | 980 | 1202.9 | 222.9 | 22.745 | Under Priced |
| S.J.S Enterprises Ltd. | 15-Nov-21 | 542 | 509.85 | -32.15 | -5.93 | Over Priced |
| One 97 Communications Ltd. | 18-Nov-21 | 2150 | 1564.15 | -585.85 | -27.25 | Over Priced |
| Sapphire Foods India Ltd. | 18-Nov-21 | 1180 | 1216.05 | 36.05 | 3.055 | Under Priced |
| Latent View Analytics Ltd. | 23-Nov-21 | 197 | 488.6 | 291.6 | 148.02 | Under Priced |
| Tarsons Product Ltd. | 26-Nov-21 | 662 | 840 | 178 | 26.89 | Under Priced |
| Go Fashion (India) Ltd. | 30-Nov-21 | 690 | 1252.6 | 562.6 | 81.54 | Under Priced |
| Star Health and Allied Insurance Co. Ltd. | 10-Dec-21 | 900 | 906.85 | 6.85 | 0.76 | Under Priced |
| Tega Industries Ltd. | 13-Dec-21 | 453 | 725.5 | 272.5 | 60.15 | Under Priced |
| Anand Rathi wealth Ltd. | 14-Dec-21 | 550 | 583.5 | 33.5 | 6.09 | Under Priced |
| Rategain Travel Technologies Ltd. | 17-Dec-21 | 425 | 340.5 | -84.5 | -19.88 | Over Priced |
| Shriram Properties Ltd. | 20-Dec-21 | 118 | 99.4 | -18.6 | -15.76 | Over Priced |
| C.E. Info Systems Ltd. | 21-Dec-21 | 1033 | 1394.55 | 361.55 | 35 | Under Priced |

| | | | | | | |
|--------------------------------|-----------|-----|---------|--------|--------|--------------|
| Metro Brands Ltd. | 22-Dec-21 | 500 | 493.55 | -6.45 | -1.29 | Over Priced |
| Med Plus Health Services Ltd. | 23-Dec-21 | 796 | 1120.85 | 324.85 | 40.81 | Under Priced |
| Data Patterns (India) Ltd. | 24-Dec-21 | 585 | 754.85 | 169.85 | 29.034 | Under Priced |
| HP Adhesives Ltd. | 27-Dec-21 | 274 | 334.95 | 60.95 | 22.24 | Under Priced |
| Supriya Life Science Ltd. | 28-Dec-21 | 274 | 390.35 | 116.35 | 42.46 | Under Priced |
| CMS Info systems Ltd. | 31-Dec-21 | 216 | 237.4 | 21.4 | 9.90 | Under Priced |
| AGS Transact technologies Ltd. | 31-Jan-22 | 175 | 161.3 | -13.7 | -7.83 | Over Priced |
| Adani wilmar Ltd. | 8-Feb-22 | 230 | 265.2 | 35.2 | 15.30 | Under Priced |
| Vedant Fashions Ltd. | 16-Feb-22 | 866 | 934.85 | 68.85 | 7.95 | Under Priced |

Source: Secondary Data

Table 1, reveals the performance of IPOs on the first day of listing.

In the study, nineteen (19) companies have underpriced their shares on the listing day, shows higher participation of investors in the aftermarket, which led to shoot up the stock prices and resulted positive return on the very first day of listing. There might be higher chances of earning good profit in future, in case of underpriced shares. The investor can hold their investment for medium and long term to get better returns.

On the other hand, (8) eight companies have over-priced their shares, shows limited participation of investors in the follow-on public offering, which led to lower and negative returns and downward sloping of stock prices. The investor should take necessary precautions while selecting an IPO for investment because an over price share of company may fall on its listing day and the IPO can be a huge failure.

IPOs given higher returns on the listing day

The higher returns given by the companies through IPO's are Paras Defence and Space Technologies Ltd., Sigachi Industries Ltd., Latent View Analytics Ltd., FSN E-Commerce Ventures Ltd., Go Fashion (India) Ltd. and Tega Industries Ltd. and their returns are 185%, 270.40%, 148.02%, 81.54% and 60.15% respectively. Above these companies Paras Defence and Space Technologies Ltd. Has

given the highest returns.

IPOs given normal returns on the listing day

Supriya Life Science Ltd., Med Plus Health Services Ltd., Data Patterns (India) Ltd., Tarsons Product Ltd., PB Fintech Ltd., HP Adhesives Ltd. and C.E. Info Systems Ltd. IPO's have given normal returns ranges between 20% to 50%. Among these, Supriya Life Science Ltd IPO has given best return in this category.

IPOs given negative returns on the listing day

One 97 Communications Ltd., Rategain Travel Technologies Ltd., and Shriram Properties Ltd. IPO's have performed badly with negative returns. From these, one 97 Communications Ltd. IPO stood at -27.25% of initial losses. From this we can conclude that majority of the IPO's *i.e.*, 19 companies IPO have performed well with positive returns and 8 companies IPO performed poorly with negative returns on its listing day. The investors have good opportunity of earning higher returns by selling underpriced IPOs on the listing day or they may opt for holding for a long time to get compounding benefit. Companies acquiring fund through IPO's may opt for under pricing strategy of shares to attract maximum possible investors to the secondary market, which can be a win-win situation for both companies as well as for the investors.

Table 2: Performance of IPO'S during post pandemic

| Company Name | Issue Price | Listing Day Price | 1st Month | 2nd Month | 3rd Month | 4th Month | Current Price | Gain/Loss (%) | Average Price | Gain/Loss (%) |
|---|-------------|-------------------|-----------|-----------|-----------|-----------|---------------|---------------|---------------|---------------|
| Paras Defence and Space Technologies Ltd. | 175 | 498.75 | 927.3 | 705.25 | 743 | 711.95 | 593.85 | 239.34 | 696.68 | 298.10 |
| Aditya Birla Sun Life AMC Ltd. | 712 | 699.65 | 572.17 | 531.35 | 519.4 | 506.45 | 489.3 | -31.28 | 553.05 | -22.32 |
| FSN E-Commerce Ventures Ltd. | 1125 | 2206.7 | 2101.55 | 1651.55 | 1291.25 | 1689.55 | 1309.3 | 16.38 | 1708.32 | 51.85 |
| Fino Payments Bank Ltd. | 577 | 545.25 | 370.9 | 390.35 | 283.6 | 251.4 | 259.7 | -54.99 | 350.2 | -39.31 |
| Sigachi Industries Ltd. | 163 | 603.75 | 398.9 | 337.4 | 301.3 | 289.15 | 269.4 | 65.28 | 366.65 | 124.94 |
| PB Fintech Ltd. | 980 | 1202.9 | 950.3 | 795.05 | 662.05 | 694.3 | 645.2 | -34.163 | 824.97 | -15.82 |
| S.J.S Enterprises Ltd. | 542 | 509.85 | 382.15 | 397.45 | 369.7 | 409.15 | 375.75 | -30.67 | 407.34 | -24.85 |
| One 97 Communications Ltd. | 2150 | 1564.15 | 1334.55 | 916.85 | 798.1 | 528.45 | 543.15 | -74.74 | 947.54 | -55.93 |
| Sapphire Foods India Ltd. | 1180 | 1216.05 | 1219.15 | 1350.4 | 1273.4 | 1482.2 | 1013.4 | -14.12 | 1259.1 | 6.70 |
| Latent View Analytics Ltd. | 197 | 488.6 | 561.55 | 498.2 | 409.65 | 422.75 | 388.5 | 97.21 | 461.54 | 134.28 |
| Tarsons Product Ltd. | 662 | 840 | 645 | 703.25 | 595.55 | 702.95 | 617.15 | -6.77 | 683.98 | 3.321 |
| Go Fashion (India) Ltd. | 690 | 1252.6 | 1070 | 953.55 | 904.05 | 1011.5 | 975.95 | 41.44 | 1027.94 | 48.98 |
| Star Health and Allied Insurance Co. Ltd. | 900 | 906.85 | 768 | 699.3 | 710.45 | 711.35 | 653.25 | -27.42 | 741.53 | -17.61 |
| Tega Industries Ltd. | 453 | 725.5 | 499.05 | 428.8 | 470.4 | 427.3 | 426.05 | -5.95 | 496.18 | 9.53 |
| Anand Rathi wealth Ltd. | 550 | 583.5 | 579.74 | 559 | 606.3 | 648.6 | 612.55 | 11.37 | 598.28 | 8.78 |
| Rategain Travel Technologies Ltd. | 425 | 340.5 | 371.9 | 299.55 | 334.1 | 354.45 | 307.4 | -27.67 | 334.65 | -21.26 |
| Shriram Properties Ltd. | 118 | 99.4 | 90.52 | 91.01 | 92.05 | 112.8 | 90 | -23.73 | 95.96 | -18.66 |
| C.E. Info Systems Ltd. | 1033 | 1394.55 | 1606.85 | 1346.35 | 1573.2 | 1522.5 | 1247.6 | 20.77 | 1448.51 | 40.22 |
| Metro Brands Ltd. | 500 | 493.55 | 598.9 | 522.45 | 583.45 | 606.86 | 521.45 | 4.29 | 554.44 | 10.89 |
| Med Plus Health Services Ltd. | 796 | 1120.85 | 1085.65 | 1029.45 | 1014.5 | 994.9 | 829.4 | 4.20 | 1012.46 | 27.19 |
| Data Patterns (India) Ltd. | 585 | 754.85 | 721.8 | 613.55 | 702.9 | 797.9 | 689.25 | 17.82 | 713.375 | 21.94 |
| HP Adhesives Ltd. | 274 | 334.95 | 388.45 | 377.2 | 391.4 | 387.35 | 344 | 25.55 | 370.56 | 35.24 |

| | | | | | | | | | | |
|--------------------------------|-----|--------|--------|---------|--------|-------|--------|--------|--------|--------|
| Supriya Life Science Ltd. | 274 | 390.35 | 462.05 | 420.15 | 493.3 | 419.7 | 324.4 | 18.39 | 418.33 | 52.67 |
| CMS Info systems Ltd. | 216 | 237.4 | 255.8 | 236 | 272.3 | 259.2 | 235.45 | 9.00 | 249.36 | 15.44 |
| AGS Transact technologies Ltd. | 175 | 161.3 | 109.75 | 109.35 | 118.75 | 96 | 96.9 | -44.63 | 115.34 | -34.09 |
| Adani wilmar Ltd. | 230 | 265.2 | 516.9 | 780.4 | 568.6 | 568.6 | 568.6 | 147.22 | 544.72 | 136.83 |
| Vedant Fashions Ltd. | 866 | 934.85 | 966.95 | 1091.55 | 977.5 | 977.5 | 977.5 | 12.87 | 987.64 | 14.046 |

Source: Secondary Data

Table 2, evaluates the performance of offerings from the date of issue to its next succeeding four months. The study examines data such as change in share prices over the four months like 1st month, 2nd month, 3rd month and 4th month and listing as well as current price of shares. The price fluctuation over this time period has been calculated on the base of issue price of shares.

Performance of IPO's based on average price

Gain/Loss (%) = (Average Price-Issue Price)/Issue Price*100

Average Price = Average Price of Share during Study Period.

Based on average price of shares, the highest gain achieved by Paras Defence and Space Technologies Ltd. IPO with 298% of profit on its issue price followed by Adani Wilmar Ltd. IPO, Latent View Analytics Ltd. IPO and Sigachi Industries Ltd. IPO with 136.83%, 134.28% and 124.94% respectively. From above, it can be observed that out of 4 companies, 3 are indulged in manufacturing activities and have given highest profit. Therefore, it can be assumed that manufacturing-based companies have performed well and also it would be advisable to the investors to have this sector shares into their portfolio.

Performance of IPO's based on current price

Gain/Loss (%) = (Current Price-Issue Price)/Issue Price*100

Based on current price of shares, the highest gain achieved by Paras Defence and Space Technologies Ltd. IPO with approximately 240% of profit on its issue price followed by Adani Wilmar Ltd. IPO and Latent View Analytics Ltd. IPO with 147% and 97% respectively. From above, it can be observed that same companies have given highest profit as per average price base excluding Sigachi Industries Ltd. IPO. Hence it can be concluded that manufacturing-based companies are performing well and investors have the opportunity of holding these shares for a long run to earn higher profit.

Progressive Performance of IPO's During the Post Pandemic

Progressive Performance = % change in a closing price at months end Progressive performance of IPO's is an analytical study of stock returns, evaluated by considering closing price of each stock at month's end. The result reveals, out of 27 IPO's, 15 IPO's have shown upward trend and positive returns and 10 IPO's have shown downward trend and negative returns throughout the period. 2 IPO's *i.e.*, Sapphire foods India Ltd. and tarsons product Ltd. have shown higher volatility at each month but created positive returns overall. Therefore, it can be concluded that 17 out of 27 IPOs have generated good returns except 10 IPOs during the post pandemic.

Conclusion and Suggestions

The initial public offering is one of the best options for corporate to raise funds with minimum cost. IPOs provides an upper edge over other mode of finance by its non-payable

nature of principle amount. Now days, responsibility of issuing IPO has been taken over by underwriters, underwriters take the risk of under subscription by charging certain level of interest on raised fund. IPO's growth relies on different factors such as issue timing, issue price, company's performance and value and other economic factors. IPOs underpricing and overpricing creates a great attraction for the prospective investors.

The study focuses upon performance of various IPO's listing on stock exchange during post pandemic period. The study found that, out of 27 companies, 19 companies IPO have performed well with good returns on the listing day while 8 companies IPO have not performed as per the investor's expectation. In a progressive performance of IPOs from October 2021 to March 2022, 15 IPO's have generated positive and continues return each month to its investors while 10 IPOs drowned the investors into loss. Based on the study, it can be concluded that almost 17 IPOs have performed well and yielded positive returns while 10 IPOs have not performed well and caused a loss to the investors. The study suggests that those shares which are found to be overpriced, should be sold on its listing day to prevent from losses and those which are under-priced, have generated good returns on its listing day, should be hold for a longer term to get higher return. The study would help investors in increasing their understanding towards IPO's and to take necessary precautions while selecting the IPOs into their portfolio.

Conflict of interest: The authors declare no conflict of interest.

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