IMPACT OF LISTING ON STOCK PRICE RETURNS IN DIFFERENT SECTOR

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ABSTRACT: Indian stock market achieved a new milestone with BSE's market capitalization crossing Rs. 150 lakh crore for the first time in 2017. IPOs are the largest source of fundraising. A lot of research work already done, but which is not sufficient so we have decided to conduct research study during the (2009-2015) period short run as well long-run performance of IPO in respect of NSE. The objective of this study is identifying the impact of listing on stock price return of companies from service and infrastructure sectors. The short run and long run price performance of IPOs is measured using company raw return and market adjusted excess returns (MAERs). The study found that high over performance in the initial trading day is not soured IPOs Company performed better in long periods.

Key Words: Capitalization, Performance, Impact

INTRODUCTION
Financial System plays a vital role in the economic development of a country. The core function of a well-developed financial system is to facilitate smooth and efficient allocation of resources from savers to the ultimate users. It provides a framework for carrying out economic transactions and monetary policy and help in channelizing the savings into investment, thereby supporting economic growth (Source: imf.org). Financial System divided into four components which are financial services, financial instruments, financial intermediaries and financial markets. In terms of Regulation 2 (1) (p) of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 an "initial public offer means an offer of specified securities by an unlisted issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such securities in an unlisted issuer.” In simple words Initial public offering is the process by which a private company can go public through a sale of its stocks to the general public. It could be a new, young company or an old company which decides to be listed on an exchange and hence goes public.

Functions of New Issue Market
Primary market or new issue market performs three main functions i.e. origination, underwriting, and distribution of new securities:

Origination - It deals with the origin of the new issue. It refers to the work of investigation, processing, and analysis of new project proposals. It starts before an issue is actually floated in the market. The proposal is analyzed in terms of the nature of the security, the size of the issue, the timing, and the method of the issue.

Underwriting - It is written agreement whereby the underwriter promises to subscribe to a specified number of shares and debentures in the case if public does not subscribe to the issue. The underwriters reduce the element of uncertainty for subscription of public issue.

Distribution - It refers to the sales of securities to investors. This is carried out with the help of the lead manager and broker to the issue. The distribution function is carried out by the broker, sub-broker, and agents.

IPO Pricing Mechanism
There are basically two methods of pricing IPOs, i.e.
1. Fixed Pricing Method
2. Book Building Pricing Method

Fixed Price Method:
It is a traditional method of pricing the IPOs. Fixed price offerings have historically dominated the IPO landscape in India. An issuer company is allowed to freely price the issue. Here the issuer and the merchant banker agree on the issue price before making the actual issue and the investors are required to fill in an application form at this price and subscribe to the issue. As the issuer (or Controller) fixes the issue price well before the actual issue is launched or listed, it is cautious and conservative in price so that the issue is fully subscribed. The basis of issue price is disclosed in the offer document where the issuer discloses in...
detail about the qualitative and quantitative factors justifying the issue price. The Issuer company can mention a price band of 20% (cap in the price band should not be more than 20% of the floor price) in the Draft offer documents filed with SEBI and actual price can be determined at a later date before the filing of the final offer document with SEBI/ROCs.

During the period 1992 to 1999 the regulator played no role in the determination of the price and is solely left to the issuer but the investors have the choice to invest in it or not. In the case of oversubscriptions, the allocation will be made on a pro-rata basis. The major disadvantage of this method was that the price was determined solely by the issuers and the lead managers well in advance at least 2-3 months prior to the offering. It was quite difficult for the lead manager to gauge the market clearing price.

**Book Building Price Method**

SEBI guidelines defines Book Building as "a process undertaken, by which a demand for the securities proposed to be issued by a body corporate is elicited and built-up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document".

Book Building is basically a process used in Initial Public Offer (IPO) for efficient price discovery. It is a mechanism where, during the period for which the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The offer price is determined after the bid closing date. As per SEBI guidelines, an issuer company can issue securities to the public through prospectus in the following manner:

(A) 100% of the net offer to the public through book building process
(B) 75% of the net offer to the public through book building process and 25% at the price determined through book building. The Fixed Price portion is conducted like a normal public issue after the Book Building portion, during which the issue price is determined.

**REVIEW OF LITERATURE**

**Corhay (2002)** examined the long-run performance of initial public offerings (IPOs) in Malaysia over the four-year period between 1992 and 1996. The sample of 258 IPOs was used. The study investigated the growth and value effect of IPOs listed on the Kuala Lumpur Stock Exchange. The study was based on each of three variables book-to-market equity (B/M), earnings-to-price (E/P) and cash flows-to-price (C/P) and concluded that growth value effect of IPOs returns. The long-run performance of IPOs in the sample varied with a great deal with a maximum cumulative adjusted return (CAR) of 479.4% compared to the minimum of -145.4%. The study concluded that IPOs tend to outperform the market with a positive cumulative adjusted market return (CAR) of 41.7% over three years from the listing day.

**Jaitly (2004)** investigated the pricing of new issues in the Indian stock market during 31st May 1993 to 17th February 1994. Sample comprising of thirty-nine companies. CCI price might be used as a benchmark. To measure the performance of each variable multiple regressions model has been used. An average of 72% return was marked on the first day during post listing. Results indicate that pricing of new issues appears to be consistent with rational decision-making.

**Bessler(2007)** investigated the long-run performance of initial public offerings (IPOs) in Germany stock market from the period 1977 to 1995. Total sample consisted of 218 IPOs listed on one of the eight German stock exchanges. This study explained the significant difference in long-run performance between two groups of IPOs based on the future financing decision. The study tried to find out the problem by using abnormal return patterns by the following criteria: benchmark, year of going public, security design money raised, market value and magnitude of underpricing. The results showed that the subsequent financing activity in the equity market was the most important factor for determining the future performance of an IPO. The studies indicate that only successful firms had the opportunity to raise additional funds in the equity market through seasoned equity offerings.

**Kenourgios(2007)** examined the initial performance of 169 IPOs listed on the Athens Stock Exchange (ASE) over the period of 1997-2002. In the first stage, raw returns and the excess or adjusted returns method were used. In the second stage, proxy was used to rank the underwriters' prestige along with the times of oversubscription, which was introduced as explanatory variable in the model. The results of the analysis on the initial performance of the IPOs provided evidence of significant underpricing. Furthermore, the cross-sectional analysis of the determinants of the IPOs showed that both the underwriters' prestige and the times of oversubscription significantly affected the underpricing level of the IPOs.

**Deb (2010)** diagnosed the efficiency of grading mechanism of IPOs of Indian stock market. Data from 163 IPOs was taken from the periods of April 2006 to March 2009. Cross section multiple regression model and
initial return method were used to analyze the information content of IPO grading. They found that if grading decreases IPO underpricing and positively influence the demand of retail investors. Grading reduces secondary market risk and improves liquidity. However, grading does not affect the long run performance of the IPOs.

Bakar (2012) investigated the degrees of Initial Public offer Based on 476 IPOs. The data collected from the period 2000 to 2011 in Malaysian Stock Exchange (MSE) Offerings (IPOs) underpricing in Malaysia market. The effect of determinants factors i.e. issue’s price, offer size, company’s age and types of industries was examined. Multiple linear regression analysis methods have been used for this study. The results showed that the highest IPOs underpricing was recorded in the year 2000 with average mean 2.1487 and the lowest IPOs underpricing was recorded in the year 2004 with average mean 0.0929. In the year 2005 and 2006, IPOs were overpriced with average mean -0.1806 and -0.2296. The variables issues price, offer size, companies’ age and types of industries collectively explained 80.7% variations of degrees in IPOs underpricing issues in MSE.

Basti (2015) examined the return of IPOs in the stock market of Turkey. The study covers all IPOs except securities investment trusts during the period 2005-2013. Popular machine learning models, several decision tree models and Support vector machine method were used to evaluate the price performance of IPOs.The analysis revealed an average excess return of 6.09% on the first trading day with a standard deviation of 9.85%. While the excess return is 10.36% with a standard deviation 29.09% for 10 days period. The results indicated that market sentiment like the annual sale amount, total assets turnover rates, IPOs stock sales method, offer price, debt ratio etc. are a crucial factors that affect IPOs performance.

Giudici (2015) highlighted the long-run stock price performance of Initial Public Offerings (IPOs) on Europe’s new stock markets. They found that Internet and technology (IT) companies that went public during the bubble period of 1999–2000 performed very poorly. The study also indicated that IPOs completed in 1999–2000 that were underwritten by reputable investment banks performed significantly better than other IPOs. The result concluded that the average daily abnormal return during 100 trading days after lock-up expiration was significantly lower than the average daily abnormal return during 100 trading days before lock-up expiration.

Yaakob (2016) investigated the degrees of initial public offering (IPOs) under-pricing in Malaysia. A sample of 46 IPOs listed from 2012 until 2015 was used. The impact of various determinants name as issue's price, offer size, and types of industries into degrees of IPOs underpricing was examined. The data was secondary in nature. This study includes IPOs issues in all types of industries. The analysis was based on initial return. The overall performance of the market showed a positive return which is high return in 2013. The results of marked-adjusted initial returns show that IPO companies are significantly underpriced. The study concluded that all the year’s yield has the positive initial return for IPOs on the first day of trading. This study found that high underpricing in the initial trading is not determining two same performances four year later.

Basodan (2016) investigated the long-run performance of IPOs (Initial Public Offerings) listed in the NYSE (New York Stock Exchange). Three years data had been collected for assessment of IPOs, which were listed in between 1994 to 2005. The study concluded that IPOs performed poorly by the result of BHAR and CAR as 50% and 47% respectively. Finally, the results showed that the post returns of IPOs were not so satisfactory in the organizations despite the factors such as firm age, firm size, firm industry, volatility, underwriter's reputation, and management competency.

Satta (2017) highlighted the long-term performance of IPOs in the seaport industry. The data collected from the secondary sources of 90 port-related companies worldwide. Ordinary least squares regression model, initial raw return, market adjusted abnormal returns (MAAR) method was used. The results indicated that performance of extant IPOs is expected to influence both the capacity of ports and cost of funding. The outcomes suggested that the port-related IPOs trends depict a heterogeneous performance in their first trading day and port-related companies usually produce stable cash flow. They concluded that if investment is less risky, lows initial return could be reaped.

**OBJECTIVE OF THE STUDY**

1. To identify the impact of listing on stock price return of companies from service and infrastructure sectors.
2. To finds out the price performance of IPOs for selected short term time intervals.
3. To study the impact of listing on long term price performance of the companies.
4. To describe the important conclusions emerging from the study.
Indian stock market achieved a new milestone with BSE,s market capitalization crossing Rs.150 lakh crore for the first time in 2017. The stock market rally and record listings helped the country's market value grow by 49% - the highest worldwide. While the Sensex has risen 27%(approx) and Nifty has risen 28%(approx) so far 2017 year. IPOs alone have added Rs. 6.4 lakh crore to the market capitalization this year.

From time to time, there is a lot of research has been conducted in the capital market. IPOs are the largest source of fundraising. In primary Market, fundamental and technical analyses are not properly aware everybody in the Indian capital market. There is a speculative opportunity to earn the profit for listing time. In 2008, World Economy faced the recession there for Indian capital market also affected with it. A lot of research work already done, but which is not sufficient so we have decided to conduct research study during the (2009-2015) period short run as well long run performance of IPO in respect of NSE.

METHODOLOGY
The present study was descriptive in nature to describe the short term and long term price performance of Initial Public Offerings (IPOs) in the Indian capital market with a selected sample of Indian IPOs. The period chosen for the study was from January 2009 to December 2015. Out of the total universe size of IPOs of 4772 companies, only IPOs of 179 companies fell in this category. The companies so arrived were grouped into major market capitalization segments. Therefore only two sectors were selected out of 27 sectors which have highest IPOs came in during 2009-2015. In the national stock index sector index has been taken for accuracy result. Secondary data were used to analyze the performance of Indian IPOs under study. Various data inputs of the present study were offer price, offer date, listing price, listing date, prices of IPOs for different time intervals i.e. listing day, seven days, fifteen days, twenty-one days, one month, three months, six months and one year, two years & three years and NSE sector Index of these same date/periods have been taken into consideration. The short run and long run price performance of IPOs is measured using company raw return and market adjusted excess returns (MAERs).

PERFORMANCE ANALYSIS OF IPOs IN DIFFERENT TIME PERIODS

<table>
<thead>
<tr>
<th>Sector</th>
<th>Listing Day</th>
<th>Six Month</th>
<th>One Year</th>
<th>Two Year</th>
<th>Three Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Sector</td>
<td>Better</td>
<td>Better</td>
<td>Average</td>
<td>Poor</td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Better</td>
<td>Average</td>
<td>Average</td>
<td>Poor</td>
<td></td>
</tr>
</tbody>
</table>

Table no.4.1

Finally, the study indicates that IPOs are very important corporate tools for raising fund from the primary market. The short run and long run price performance of IPOs is measured using company raw return and market adjusted excess returns (MAERs). On the basis of various evidences from past IPOs and studies it can be concluded that short run the IPOs trends to earn very high returns which are over and above the market returns. On the basis of result and finding of table no 4.1 it can be concluded that service sector and infrastructure sector perform better on the day of listing and both sector perform better in six month time intervals. The study found that high over performance in the initial trading day is not soured IPOs Company performed better in long periods. It can be concluded that both two sector i.e. Service, Infrastructure give better return in short run and poor or negative return in long periods.

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