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Pattern and Determinants of Long–Run Performance of IPOs in India

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Abstract

The scope of the present study is to find out how far the publicly available information is being used by the IPO firms and IPO investors. The models designed in the study all are based on publicly available information. The study period is from the year 2004 to 2013. It is based on a sample of 200 IPOs issued during the study period. The objectives of the study are to see the relationship between long run and short run returns of IPOs and find out the determinants of long run returns of IPOs. The study used Average Adjusted Returns (AAR) Cumulative Average Returns (CAR) and Buy and Hold Adjusted Returns (BHAR) it is formed that mean of AAR is significant up to 11 months after Listing and then continuously declining and goes negatives for 34, 35 and 36 months. CAR is significantly increasing up to 11 months after listing after up to 19 months they are constant and then after 20 months they stated falling and turn negative in 34, 35 and 36 months. BHAR is significant for 1 to 36 months.

I. Introduction

ON THE EVENT of IPO on the one side the company reveals its value in the market and on the other side the market (investors) also decides value of the company. Thus, determination of the value of a company through pricing of the IPO becomes a key aspect while going public. The international phenomenon is that valuation by the company differs from the valuation done by the market. The valuation differs because these two sides have opposite expectations. The issuing firm wants to raise maximum funds from the market by selling the issue at maximum price while investors want to buy at least price. The effect of pricing of the initial public offerings is not limited to these two sides. The pricing of initial public offerings affects an economy also. As public offering is a way of resource mobilization from investors to business projects that implies the resource mobilization from low growth opportunities to high growth opportunities. Therefore if the issuing firms keep very high offering price then it discourages to the investors for buying the issue while if it is very low then it discourages to the issuing

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models from the present study and the publicly available information. The excess closing returns on listing day, subscription, leverage and P/E ratio are PB, and BHAR 1, BHAR6 , BHAR12 , BHAR 24 is the information they would require for predicting BHAR on the basis of present study.

The investors as well as the IPO issuing firms should focus on the long term returns of their shares rather than looking for lucrative initial or short term returns. It is said that in the long term equity shares always beat the inflation, hence it is better to consider IPO as long term investment than the short term or one day investment. Putting money in IPOs for a very short period or one day becomes a speculation or gambling rather than the investment. And we all know there is no certainty of positive returns in speculation and gambling. On the other side the companies should also focus on the long term image or brand rather than reaping the benefits in one day then sharply coming down. A good firm always gets its benefit from the share market over a long period, but the bad firms may get initial advantage by manipulation eventually they suffer when their true value in known by the market in the long term.

The present study leaves a wide future scope that the models of the present study can be compared with the international capital market. That is an international study can be carried out if sufficient time and data are available to the researcher.

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