A Study on the Risk and Return of Trading Strategies with Special Reference to IPOs in India

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Abstract

Initial Public Offerings (IPOs) attract strong investor attention in the Indian stock market due to their potential for high listing gains and growth prospects. However, IPOs are also characterized by high volatility, pricing inefficiencies, and investor sentiment-driven fluctuations. This study evaluates the risk and return characteristics of IPO-based trading strategies using a six-month post-listing performance of 22 IPOs listed in India during 2024. Monthly returns and standard deviation are used as measures of return and risk. The findings reveal that although certain IPOs generate strong short-term gains, overall risk remains high and returns are inconsistent. The study concludes that IPOs are better suited for long-term investment strategies rather than speculative short-term trading.

Keywords: IPO, Risk, Return, Volatility, Trading Strategies, Indian Stock Market

Introduction

An Initial Public Offering (IPO) represents the process through which a privately held company offers its shares to the public for the first time and becomes a publicly traded entity. IPOs play a crucial role in capital formation, allowing companies to raise funds for expansion, technology development, debt reduction, and business growth. At the same time, IPOs provide investors with an opportunity to participate in the early growth phase of emerging and established companies. In recent years, the Indian capital market has witnessed a surge in IPO activity, especially during 2024, with companies from diverse sectors such as finance, technology, manufacturing, healthcare, infrastructure, renewable energy, and e-commerce entering the stock market.

Despite their popularity, IPOs are known for their high uncertainty and price volatility. The initial months after listing are often influenced by speculative trading, investor sentiment, oversubscription, media attention, and information asymmetry between promoters and investors. Unlike seasoned stocks, IPO shares do not have a long trading history, making their valuation difficult and their price movements unpredictable. As a result, IPO stocks frequently experience sharp fluctuations, creating both opportunities and risks for traders and investors. Many market participants attempt to profit from IPOs through short-term trading strategies such as listing-day trading, swing trading, or positional trading during the early months of listing. However, high volatility, liquidity constraints, and price corrections after listing often make IPO trading risky. While some IPOs generate strong initial returns, many fail to sustain their performance, leading to losses for short-term traders. Therefore, evaluating the risk–return relationship of IPOs during their post-listing phase is essential for making informed investment decisions.

This study focuses on analysing the risk and return of IPO trading strategies using six- month post-listing data of 22 companies that went public in India during 2024. By using monthly returns and standard deviation as measures of performance and risk, the study aims to determine whether IPOs are suitable for short-term trading or whether they are better aligned with long-term investment objectives. The findings of this research are expected to help traders, investors, and portfolio managers understand the true nature of IPO risk and profitability in the Indian stock market.

Risk and return in IPO Trading

Risk refers to the uncertainty of actual returns differing from expected returns. In IPOs, risk is generally high due to:

- Information asymmetry
- Investor speculation
- Market sentiment
- Overpricing at listing

Return represents the gain or loss earned by an investor over a period. The relationship between risk and return suggests that higher potential returns are accompanied by higher volatility. IPO stocks often exhibit sharp price movements in their early trading phase due to demand-supply imbalances and speculative trading

Review of literature

Prior research on IPOs and trading strategies largely shows that IPO returns are highly sensitive to pricing efficiency, liquidity conditions, and risk exposures. Early evidence from option and model-based trading strategy research suggests that even when systematic strategies improve returns, the statistical strength of outperformance may be weak once estimation risk and market frictions are considered (Eraker, 2004). In IPO-focused research, a key debate is whether IPO underperformance reflects market inefficiency or compensation for risk. A major empirical study on Nasdaq IPOs argues that IPO returns can be explained through risk-factor exposures such as liquidity and leverage, producing insignificant abnormal returns after adjustment (Eckbo & Norli, 2004). These insights support the view that IPO performance should be evaluated with a risk-adjusted lens rather than headline listing gains alone.

Another important stream of literature connects IPO outcomes with information disclosure, investor behavior, and market sentiment. Studies examining IPO prospectuses indicate that risk-related disclosures influence investor perception and IPO pricing dynamics; greater disclosure is associated with higher initial underpricing and return volatility, implying that markets may react strongly to perceived uncertainty (Arnold, Fishe, & North, 2006). Evidence from India also highlights that IPOs often deliver positive listing-day returns, but performance patterns differ sharply across issues, and the market environment around listing plays an important role in determining post-issue volatility (Deb & Mishra, 2009). Overall, these studies suggest that short-run IPO profitability may exist, but it is frequently accompanied by unstable price movements and high uncertainty, making strategy selection and risk control critical.

More recent Indian studies emphasize that IPOs tend to underperform in the long run, and issue characteristics alone may not reliably predict post-listing results. Long-run performance analysis using measures like buy-and-hold adjusted returns reports consistent underperformance among Indian IPOs and finds that only certain variables (e.g., issue size in some samples) show meaningful relationships, while others (firm age, size, time lag) often do not (Malhotra, 2017). Evidence from the post-COVID period (2021–2024) similarly reports that while underpriced IPOs generate better listing gains, sustaining performance over time remains difficult, and correlations between issue characteristics and long-run returns are not consistent (Saravanan, Gurunath, & Muthukumar, 2025). These findings justify the research gap identified in your study: limited focused work on six-month IPO performance for a single recent year (2024), especially from a risk–return and trading suitability perspective.

Scope of the study

The scope of the current research study is to identify the profitability of IPO trading. It limits to companies. 6 months and monthly data for 6 months historical data from the time of issue is collected. The following are the selected companies. Bajaj Housing Finance, Bharthi Hexacom Ltd , BookUnmech Aerospace, Diffusion Engineer Ltd, Go digit general, GPT Healthcare, Hyundai motor, Indo Pharma equipment's, Interarch Building products ltd, JG Chemical ltd, KRN Exchange and Refrigeration Ltd, Le travenues ltd, Ola Electric mobility, One mobilwik, Orient

Technology, Premier energies ltd, SRM Contractors ldt, Swiggy, Transrail Lighting, Vishal Mega mart Waaree energies ltd, Zinka logistics.

Research methodology

The study follows a descriptive research design aiming to understand and evaluate the relationship between risks and return generated through IPO trading in Indian stock market. The study is based on secondary data collected from investing.com., the study considered 22 listed IPOs companies in 2024. The standard deviation used as a key indicator for measuring trading risk and mean for calculating return. Msexcle for quantitative analysis.

Data analysis

Table no 1. Return analysis of the selected company

Companies Name	Return	Ranks
JG Chemicals Ltd	0.81	1
Zinka Logistics	0.58	2
KRN Exchanger and Refrigeration Ltd	0.57	3
SRM Contractors Ltd	0.29	4
Transrail Lighting	0.15	5
Vishal Mega Mart	0.13	6
Orient Technology	0.07	7
GPT Healthcare	0.03	8
Go Digit General Insurance	0.01	9
Unimech Aerospace	0.01	10
Hyundai Motor Mark	-0.09	11
Interarch Building Products Ltd	-0.10	12
Ola Electric Mobility	-0.12	13
LeTravenues Technology Ltd	-0.14	14
Waaree Energies Ltd	-0.16	15
Bajaj Housing Financing	-0.16	16
Swiggy	-0.17	17
Premier Energies	-0.14	18
Indo Farm Equipment	-0.24	19
Bharti Hexacom Ltd	-0.39	20
One Mobikwik	-0.59	21
Diffusion Engineer Ltd	-0.62	22

Sources: Money Control

Table no 2. Risk analysis of the selected company

Company Name	**Risk**	**Rank**
Hyundai Motor India Ltd	2.05	1
Bajaj Housing Financing	2.06	2
Go Digit General Insurance	2.81	3
Bharti Hexacom Ltd	3.05	4
Vishal Mega Mart	3.20	5
Le Travenues Technology Ltd	3.80	6
Interarch Building Product	3.81	7

Indo Farm Equipment	3.93	8
GPT Healthcare	3.70	9
SRM Contractors Ltd	4.11	10
Swiggy	4.31	11
Unimech Aerospace	4.34	12
Transrail Lighting	4.42	13
JG Chemicals Ltd	4.79	14
One Mobikwik	4.84	15
Zinka Logistics	5.00	16
Ola Electric Mobility	5.01	17
KRN Exchanger and Refrigeration Ltd	5.28	18
Orient Technology	5.30	19
Waaree Energies Ltd	5.77	20
Premier Energies Ltd	41.74	21
Diffusion Engineer Ltd	107.93	22

Sources: Money Control

The return analysis of the selected IPO companies shows wide variation in performance during the six-month post-listing period. JG Chemicals Ltd emerged as the best performing stock with a return of 0.81, securing the first rank, indicating strong investor confidence and consistent post-listing price appreciation. Zinka Logistics (0.58) and KRN Exchanger and Refrigeration Ltd (0.57) ranked second and third respectively, reflecting healthy short-term profitability among these IPOs. These companies delivered superior performance compared to the rest of the sample, making them attractive for short-term investors.

Mid-performing companies such as SRM Contractors Ltd, Transrail Lighting, Vishal Mega Mart, Orient Technology, GPT Healthcare and Go Digit General Insurance generated modest positive returns, showing limited growth but relatively stable performance. These stocks neither created significant wealth nor major losses for investors.

On the other hand, several IPOs recorded negative returns, indicating erosion of investor wealth. Diffusion Engineer Ltd (-0.62), One Mobikwik (-0.59) and Bharti Hexacom Ltd (-0.39) were the worst performers. Well-known IPOs such as Swiggy, Bajaj Housing Finance, Ola Electric Mobility and Waaree Energies also reported negative returns, suggesting that popularity at listing did not translate into short-term profitability. This highlights that IPO hype does not guarantee post-listing returns and that many investors would have faced losses.

The risk analysis, measured through standard deviation, indicates significant differences in price volatility among the IPOs. Hyundai Motor India Ltd (2.05) and Bajaj Housing Finance (2.06) recorded the lowest risk, implying relatively stable price movements and lower uncertainty for investors. Go Digit General Insurance, Bharti Hexacom and Vishal Mega Mart also showed comparatively low risk, making them safer IPO investments.

Moderate risk was observed in companies such as GPT Healthcare, SRM Contractors, Swiggy, Unimech Aerospace, Transrail Lighting and JG Chemicals, indicating noticeable price fluctuations but within manageable limits. However, extreme risk was observed in Premier Energies (41.74) and Diffusion Engineer Ltd (107.93), which were the most volatile stocks. Such high risk indicates sharp and unpredictable price movements, exposing investors to potential heavy losses. IPOs like Zinka Logistics, Ola Electric Mobility, KRN Exchanger and Waaree Energies also exhibited high volatility, making them unsuitable for conservative investors.

When return and risk are viewed together, it is evident that high returns are generally associated with higher risk,

while low-risk IPOs tend to deliver modest or even negative returns. For example, JG Chemicals generated the highest return but also carried moderately high risk. In contrast, Hyundai Motor and Bajaj Housing Finance were low-risk stocks but generated negative returns, making them unattractive from a profitability perspective.

This confirms that IPOs in 2024 were highly unpredictable and risky for short-term trading. While a few IPOs rewarded investors, many resulted in losses, reinforcing the conclusion that IPO trading is speculative and not suitable for risk-averse investors, whereas long-term investment based on fundamentals may offer better outcomes.

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