

Initial Public Offer (IPO) And Stock Market Performance

Ajay kumar (22GSOB2010615)

Under The Guidance of
Mr. Nakul
Galgotias University, Greater Noida

ABSTRACT

The success of initial public offers (IPOs) in India is the subject of this master's thesis. It centres on the performance of companies following an IPO, with an emphasis on listing gains and long-term performance (in relation to the market average). With a thorough examination of one of the largest initial public offerings (LICs), the thesis makes use of data from 40 IPOs that were listed on the National Stock Exchange (NSE) between January 2022 and December 2023. In order to determine whether the initial price fluctuations are substantial and long-lasting, it computes anomalous returns. By offering insights into the variables influencing IPO performance, the study hopes to assist investors, businesses, and policymakers. This can assist investors in making well-informed investment decisions, companies in making better decisions about going public, and legislators in developing efficient laws for the Indian IPO market. Because it explicitly targets the Indian market and takes into account a number of variables influencing IPO performance, the research is novel. Both domestic and foreign participants in the Indian financial system can benefit from knowing this information.

KEY WORDS: INDIAN IPO, LISTING GAINS, POST-LISTING PERFORMANCE, STOCK MARKET.

INTRODUCTION

This master's thesis explores Indian companies' post-IPO performance, looking at listing gains, or short-term gains, as well as long-term success in comparison to the market as a whole. The goal of the research is to empower different stakeholders in the financial system by identifying critical elements that impact initial public offerings (IPOs) in the Indian environment. When thinking about an IPO, businesses can use the study results to optimise their go-to-market strategy and possibly maximise their returns. By gaining important insights into the risk-reward profile of Indian initial public offerings (IPOs), investors can make better-informed investment choices. Using the study, policymakers may create rules that support

a healthy and effective Indian initial public offering (IPO) market that is advantageous to all parties involved. The report recognises the difficulties in evaluating Indian initial public offerings (IPOs), including the scarcity of data and the requirement to take market peculiarities into consideration. It might sometimes be challenging to distinguish between short-term listing benefits and long-term success. The study does, however, also point forth important avenues for furthering our understanding of this field. Its focus on Indian IPOs makes a significant contribution to an area that has received little attention. The results may impact policy formulation intended to foster a robust and efficient Indian initial public offering (IPO) market. In addition, the study offers vital details that enable investors to navigate the Indian

initial public offering (IPO) market and make well-informed investment decisions. Businesses thinking about going public in India may also profit from the research's insights, which will help them make more informed decisions that will increase the likelihood of their IPO being a success.

Essentially, this thesis does more than just provide an overview of India's IPO performance. It emphasises how crucial it is to comprehend the numerous variables at work as well as the possible advantages for diverse stakeholders in the Indian financial system. This effort has the ability to provide important insights into this developing sector by addressing the current issues and investigating the possibilities for additional research.

LITERATURE REVIEW

An Interpretive Overview of Indian Initial Public Offerings (IPOs)

This master's thesis delves further than a cursory analysis of Indian initial public offers (IPOs). It explores the complex relationships that develop between an organization's choice to go public and how well it performs later on in the always changing Indian stock market. Using a two-pronged approach, the study examines the effects of recent legislative changes on initial public offerings (IPOs) as well as industry-specific insights. Existing Research: A Global Landscape. Current Research: An International Scenario The study makes use of well-established global IPO knowledge. Important lessons learned include:

Growth and Financial Health Matter: After going public, companies with strong financial health and significant growth potential typically outperform. These businesses are more likely to inspire confidence in investors, which boosts their post-IPO success.

IPOs Are Driven by Market Optimism: IPO performance is typically higher in bull markets with significant investor optimism. The demand

for recently issued shares rises as a result of this upbeat mindset, increasing listing gains.

India's Early returns Edge: Research indicates that listing returns for Indian initial public offerings (IPOs) are favourable and may even surpass those in Western economies. This could be explained by investors' excitement as a result of India's great growth potential.

Long-Term Performance Unsettled: There is still conflicting information available on how well Indian IPOs have performed over the long run. While some studies show underperformance in comparison to the market as a whole, others show that high-quality offerings are on the rise in the long run. This demonstrates the intricate interaction of different elements that affect a company's destiny after becoming public. **The Role of Market Dynamics and Regulations** The performance of Indian initial public offerings (IPOs) is influenced by various factors, including but not limited to legislative frameworks, industry-specific dynamics, and investor mood. Gaining an understanding of these components is essential for a complete picture.

Interpreting Regulatory Changes: To improve investor protection and market efficiency, India has recently adopted regulatory reforms. With an emphasis on listing gains, long-term success, and investor behaviour, the thesis suggests analysing how these modifications have affected IPO performance. Future policy decisions can be informed by this analysis, which can offer insightful information about how effective these rules are.

Beyond Conventional Methods: Conventional statistical techniques are useful research instruments, but due to the intricate network of variables affecting initial public offerings (IPOs), novel ways must be investigated. The thesis suggests using text analysis methods, machine learning algorithms, and a mixed-methods strategy that incorporates both quantitative and qualitative data. The research seeks to reveal hidden patterns

and obtain a more detailed understanding of the complex processes at work by utilising these cutting-edge methodologies.

The Possible Effect: Increasing Understanding and Educating Practice

The thesis hopes to fill these research gaps and contribute significantly in a number of ways: Sector-Specific Advice: The goal of the research is to offer insightful information unique to fast-growing industry. Businesses can use this information to make strategic decisions about how to approach an IPO, and investors can use it to find opportunities within these sectors that seem promising.

Policy-Focused Research: The results can help legislators create rules that support a strong, open, and productive Indian IPO market. In the end, this can help all parties involved by fostering investor trust and maintaining a stable market environment.

Advanced Research Techniques: The thesis opens the door to the analysis of intricate financial processes through the use of cutting-edge research techniques. This development may lead to a deeper comprehension of the dynamics of initial public offerings (IPOs) in India and other countries.

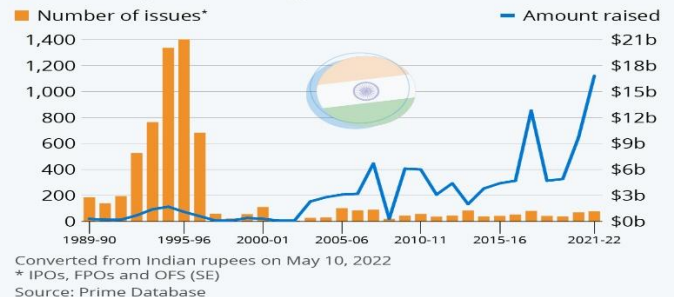
Case Study: A Closer Look at the LIC IPO
The thesis investigates the effect of a significant public offering on the stock market performance of the company using the recent LIC IPO as a case study. The research provides important insights into the immediate market response and the long-term influence on the company's financial health by examining both short- and long-term effects.

Research Design & Methodology

This thesis will look at how IPO and firm characteristics affect a company's stock market performance. We'll use a quantitative approach, utilising historical data on initial public offerings (IPOs) and the stock values associated with them.

The Indian Stock Market Is Booming

Number of stock market issues in India and money raised through them



statista

1. Methodology

I. Data Collection:

➤ IPO Data:

- Get information about initial public offerings (IPOs) within a specified time period by using financial databases such as S&P Capital IQ, Bloomberg, or WRDS.
- Particular information to gather:
 - Issue Price: The starting price per share that the IPO would give.
 - Listing Price: The stock's opening price on the first trading day. The oversubscription ratio is the difference between the quantity of shares offered and the demand for shares by investors. This suggests that investors are considering the IPO.
 - Classify businesses according to the industry they are in (e.g., technology, healthcare, financials). The industry classification can be assigned using conventional industry classification codes or derived from the database.
 - Financial Details of the Firm: At the time of the IPO, gather pertinent financial data, such as: Profitability ratios (e.g., Return on Equity, Net Profit Margin) Ratio of Debt to Equity Growth rate (predicted and historical)

2. Hypothesis

Hypothesis 1: Industry and IPO Returns

- Sub-Hypothesis 2a: Short-Term Performance: In the short term, is there a correlation between industry returns and IPO returns?
- Sub-Hypothesis 2b: Long-Term Performance: Over an extended length of time, is there a correlation between industry returns and IPO returns?

3. Research Design

- Quantitative Approach: This thesis will use a study of historical data of stock market performance in a quantitative manner.

4. Data Analysis:

- Analysing the performance of Indian stock market after the listing of IPOs
- Determine company's stock returns throughout the short and long terms. Initial Public Offering Return (IPOR), and market returns are related.
- Using statistical methods to examine the hypotheses, such as T-test.

5. Qualitative Analysis:

- Analysis the responses which are taken from the Interview/ Google form to get better understanding.

DATA ANALYSIS & INTERPRETATION

The intricate relationship between initial public offers (IPOs) and their performance in the Indian stock market is examined in this master's thesis. It emphasises the significance of taking rules, industry-specific considerations, and the

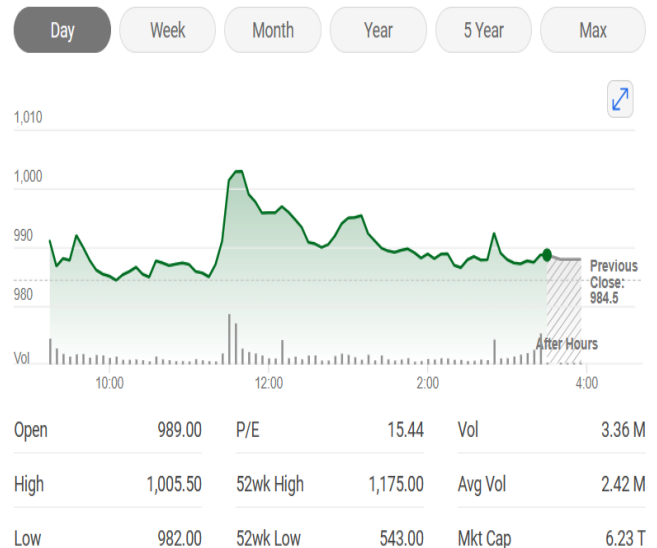
possibilities of cutting-edge research methodologies into account. As a case study, the research examines the short- and long-term impacts on the stock price of Life Insurance Corporation of India (LIC). The current price represents a 12.89% gain over the closing price on the listing day, compared to an 8% drop on the initial listing price. This translates to a Compound Annual Growth Rate (CAGR) of 6.14%. Notably, LIC has a debt-to-equity ratio of zero and has grown significantly—a reported 67.5% increase occurred in February 2024.

Life Insurance Corporation Of India

XNSE: LIC1

988.05 INR ▲ +3.55 (+0.36%) today

26 April, 5:20 pm IST · Market Closed



See more on MSN · Data from Refinitiv · Price in INR · Market closed · Disclaimer

The hypothesis testing in this section pertains to the stock of Life Insurance Corporation of India (LIC) and its short-term performance following its initial public offering. The assumption behind the null hypothesis (H0) is that, in the immediate wake of becoming public, the stock price of LIC will not differ appreciably from the total market return. On the other hand, the alternative hypothesis (H1) suggests that the stock of LIC will yield a significant short-term return, surpassing or falling short of the projected market average. Put more

simply, the goal of this portion of the research is to ascertain whether the stock price of LIC will see a notable short-term swing—either upward or downward—in relation to the overall market trend.

Paired Samples T-Test

Paired Samples T-Test

Measure 1	Measure 2	W	z	df	p
Daily return	- daily Return IPO	246.000	2.743		0.005

Note. Wilcoxon signed-rank test.

Assumption Checks

Test of Normality (Shapiro-Wilk)

	W	p
Daily return	0.972	0.706
daily Return IPO		

return. The alternative hypothesis (H1), on the other hand, predicts that LIC's stock will see a significant long-term return, either exceeding or falling short of the projected market average over time. This portion of the research essentially looks into whether the stock price of LIC will exhibit a notable long-term trend—either higher or downward—in relation to the overall movement of the market.

Paired Samples T-Test

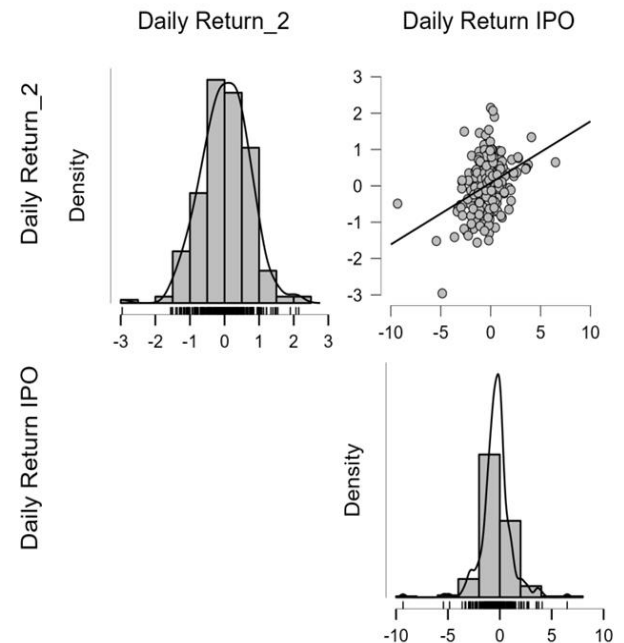
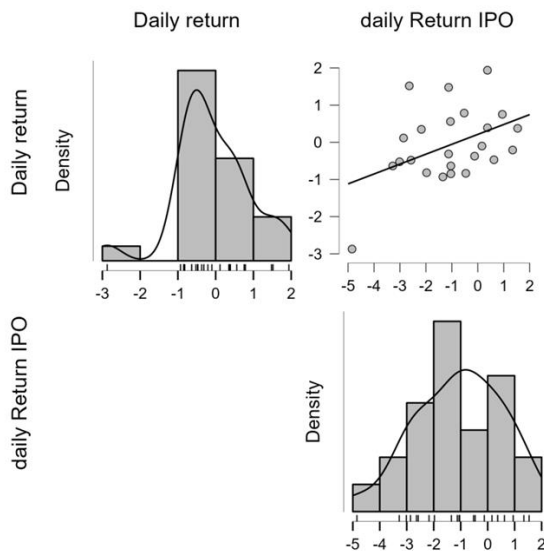
Paired Samples T-Test

Measure 1	Measure 2	W	
Daily Return_2	- Daily Return IPO	21230.000	4.9

Note. Wilcoxon signed-rank test.

Correlation plot

Correlation plot



While the hypothesis testing is still ongoing, the long-term performance of LIC's stock is the main emphasis of this section. The null hypothesis (H0), which is similar to the short-term test, states that over a lengthy period of time, the stock price of LIC will not materially differ from the total market

FINDINGS

According to my findings, it was found that in short term the IPO has a significant impact on the stock market performance. But in long term the IPO has no impact on the stock market performance

CONCLUSION

Short-Term Gains, Long-Term Washout: Initial public offerings (IPOs) such as initial coin offerings (LICs) may result in brief price swings depending on investor mood, but these impacts usually wear off over time. The IPO's effects are gradually absorbed by the market, leaving it with little long-term impact. Market Specificity Matters: The performance of IPOs is greatly impacted by the distinctive features of the Indian market. The success of an IPO is dependent on a number of factors, including rules, investor behaviour, and industry trends. Finding a Balance between Transparency and Performance: New regulations are designed to safeguard investors by enhancing transparency. To ensure a fair market environment, these changes must be carefully considered since they may have an impact on the performance of initial public offerings (IPOs) in the short and long terms. Innovation for More Comprehensive Understanding: Conventional research techniques

have drawbacks. A more thorough knowledge of the intricate dynamics at play in initial public offerings (IPOs) can be achieved by combining machine learning, qualitative analysis, and advanced statistics.

BIBLOGRAPHY

1. www.nse.com
2. [Www.bse.com](http://www.bse.com)
3. <https://onlinelibrary.wiley.com/doi/abs/10.1111/1540-6261.00478>
4. <https://americanbusinesshistory.org/history-of-ibbotson-associates/>
5. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1010483
6. <https://onlinelibrary.wiley.com/doi/10.1111/j.1468-5957.2009.02144.x>
7. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2793490