
LISTING GAIN AND LONG-TERM PERFORMANCE OF TOP OVERSUBSCRIBED IPOS AND LARGE SIZED IPOS IN THE INDIAN STOCK MARKET

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Abstract

This research paper aims to analyse the long-term performance of the top 10 oversubscribed and large-sized initial public offerings (IPOs) in the Indian stock market. The objectives of the study are twofold: firstly, to examine the performance of these IPOs over an extended period, and secondly, to investigate the relationship between oversubscriptions and the size of IPOs with their long-term performance. To achieve these objectives, a comprehensive analysis of the top 10 oversubscribed IPOs and top 10 large-sized IPOs is conducted. The study involved collecting relevant data, such as IPO subscription levels, IPO size, and post-IPO performance metrics (e.g., stock price movements, market capitalization, and financial ratios), over a specified period. Furthermore, the study will explore the relationship between oversubscriptions and the size of IPOs with their long-term performance and listing gain. By analysing the oversubscription levels and IPO size in conjunction with the performance metrics, the research aims to identify any correlations or patterns that may exist. The findings of this research will contribute to the understanding of IPO performance in the Indian stock market and provide insights into the factors that influence the long-term success of oversubscribed and large-sized IPOs. The results will be valuable for investors, market participants, and researchers interested in IPOs and their subsequent performance.

Keywords: Initial Public Offerings, Oversubscribed IPOs, Large-sized IPOs, Long-Term Performance, Indian Stock Market, Subscription Levels, IPO size, Listing Gain.

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Introduction

The recent performance of the Indian stock market has been nothing short of impressive, with several notable achievements and milestones. Firstly, major indices such as the BSE Sensex and NSE Nifty have reached all-time highs, showcasing the market's upward trajectory and indicating robust investor confidence. These record-breaking levels highlight the overall optimism surrounding the Indian economy and its growth prospects.

One significant aspect of the market's recent performance is the surge in market capitalization. Indian companies, particularly in sectors like technology, financial services, and consumer goods, have experienced remarkable growth in their market value. This surge in market capitalization underscores the resilience and potential of Indian businesses, attracting investor interest both domestically and internationally.

Foreign institutional investments (FIIs) have played a crucial role in the recent success of the Indian stock market. International investors have shown strong interest in Indian equities, recognizing the country's growth potential and favourable investment climate. The influx of foreign capital has provided a significant boost to the market and has contributed to its upward momentum.

The recent performance of the Indian stock market is also characterized by strong sectoral growth. Industries such as information technology, pharmaceuticals, and renewable energy have been at the forefront of this growth, benefiting from strong corporate earnings and supportive government policies. These sectors have demonstrated resilience and have attracted substantial investor attention, driving the market's positive performance.

Another noteworthy trend is the surge in retail investor participation. With increased accessibility to investment platforms and a growing investor base, individual investors have actively engaged in equity investments. This retail participation has added depth to the market and has played a role in sustaining its overall performance.

Government reforms and policies have also played a crucial role in creating a favourable investment environment. Initiatives such as the Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), and various sector-specific reforms have positively impacted investor sentiment and market performance. These reforms have been instrumental in streamlining processes, enhancing transparency, and attracting both domestic and foreign investments.

Importantly, the Indian stock market has witnessed a vibrant IPO market, with numerous companies successfully listing and experiencing strong investor demand. The robust IPO activity reflects the appetite for new investment opportunities and indicates the confidence of market participants in the growth potential of these companies.

The Indian stock market has witnessed significant activity in the realm of initial public offerings (IPOs) in recent years. IPOs serve as a crucial avenue for companies to raise capital and expand their operations while offering investors an opportunity to participate in the growth potential of these enterprises. As IPOs generate considerable interest among market participants, it becomes essential to evaluate their long-term performance and understand the factors that contribute to their success.

Meaning of various terms:

Long term: In the context of the above topic, "long term" refers to an extended period beyond the immediate post-IPO phase. It involves analyzing the performance of IPOs over a considerable duration, typically spanning several years. By assessing the long-term performance, researchers aim to understand how the IPOs have fared over a substantial period and evaluate their ability to deliver sustained value to investors.

Oversubscribed: An oversubscribed IPO refers to a situation where the demand for shares in the IPO exceeds the number of shares available for allocation. In other words, there is an excess of subscription applications compared to the available shares. This often indicates high investor interest in the IPO and can be a positive signal for the issuing company.

Large size: In the context of IPOs, "large size" refers to the significant offering size of an IPO. It signifies that the issuing company intends to raise a substantial amount of capital through the IPO. Large-sized IPOs typically involve larger companies with established operations, broader market presence, and often higher market capitalization. The size of an IPO can impact its market reception, investor demand, and subsequent performance.

Listing gain: Listing gain refers to the percentage difference between the IPO's issue price and its opening price on the day of listing in the stock market. It represents the initial profit or loss that investors may experience immediately after the IPO starts trading in the secondary market.

Objectives of the study:

1. To know the long-term performance of the top 10 oversubscribed IPOs and top 10 large-sized IPOs in the Indian Stock Market.
2. To find the relation between oversubscriptions and the size of IPOs with their long-term performance.
3. To know the impact of oversubscription and large size of IPOs on listing gain.

Methodology:

Data Collection: Data about the identified top 10 oversubscribed IPOs and top large-sized IPOs collected from reputable financial databases, such as Money Control, Chittorgarh, Prime Database, Bloomberg, Reuters, and public sources such as company filings, stock exchanges, and financial news platforms. The data collected include oversubscription levels, IPO size, post-IPO stock price movements, market capitalization growth, financial ratios, and any other relevant performance metrics.

Data Analysis: The collected data will be organized and analysed using statistical and financial analysis techniques and graphical & chart representations.

Data Analysis and Interpretation:

Top 10 oversubscribed IPOs in India

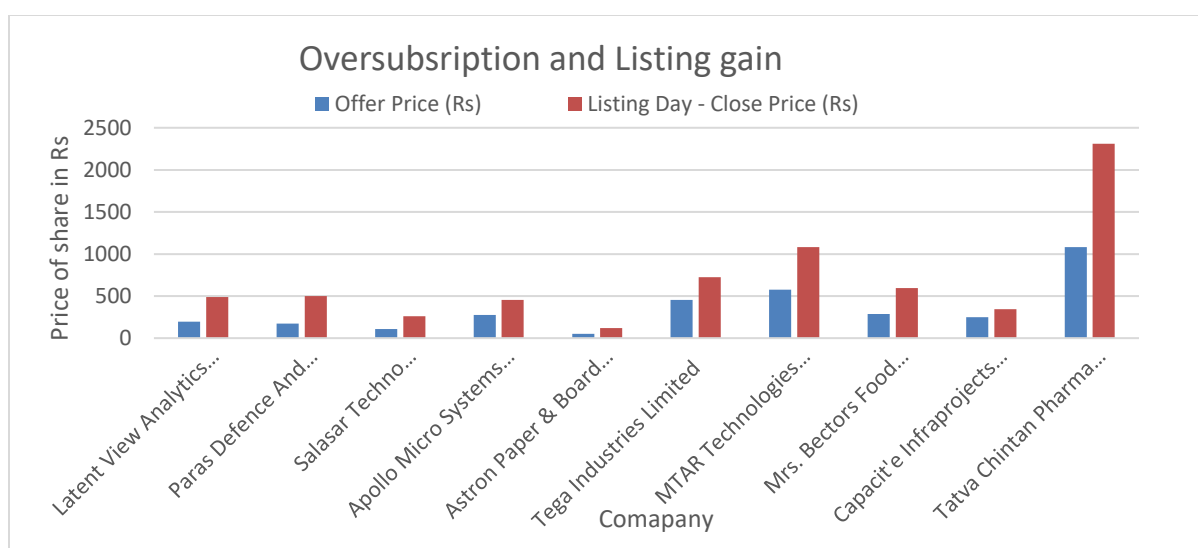
Subscription to IPOs refers to the process where investors express their interest in purchasing shares of a company that is going publicⁱ. Investors, both institutional and retail, High Net Worth Individuals, qualified institutional buyers (QIBs), such as mutual funds, insurance companies, banks, and foreign institutional investors (FIIs). Institutional investors can subscribe to an IPO by submitting their applications to designated intermediaries such as banks, brokers, or online platforms. The subscription data indicates the level of demand for the IPO and is measured in terms of the oversubscription ratio (x times). Subscription data provides insights into investor sentiment and the level of interest in an IPO. Higher oversubscription ratios indicate strong demand and can influence the final allotment of shares.

For research, the researcher selected the IPOs which are oversubscribed for more than 180 times their actual issue size. The researcher selected the top 10 searches oversubscribed.ⁱⁱ IPOs. Here researcher tried to find the relation between oversubscription (more than 180 times) and Listing gain (Short term gain) gain in value (Long term gain). Here return from dividends or returns in other modes are not considered for calculating the long-term gain.ⁱⁱⁱ The oversubscription and short and long-term gain is purposefully selected for this study because of whatever the investor, he is seeking only two types of gain: 1 Listing gain and 2 long-term gain.

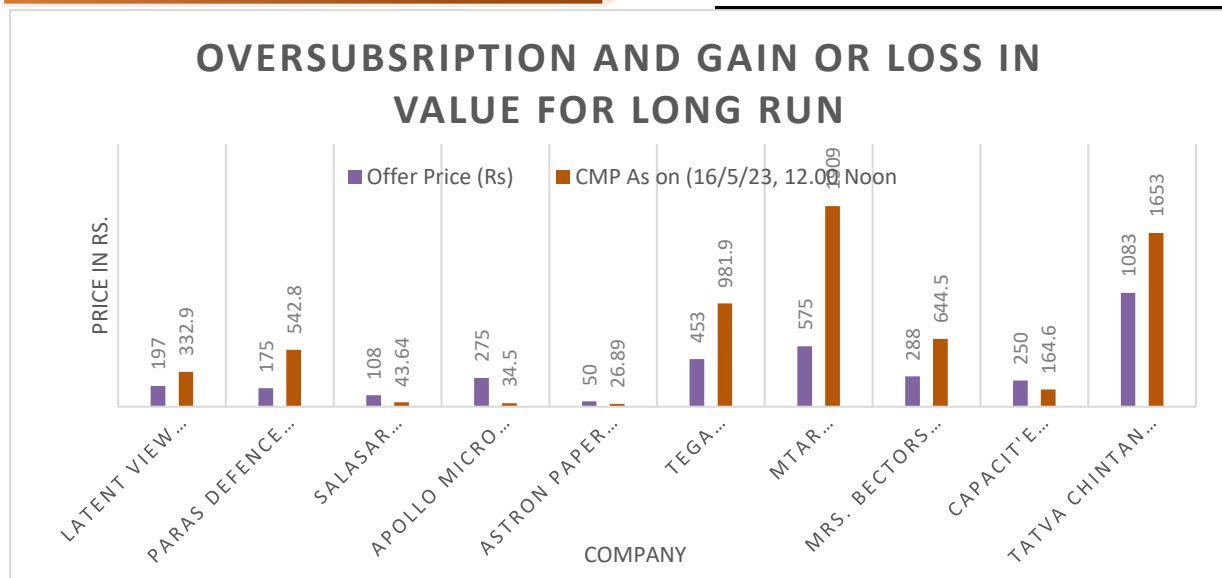
Top 10 Oversubscribed (more than 180 times) IPOs

Sr. No.	Issue Name	Issue Size (Rs Cr)	Oversubscribed (x)	Offer Price (Rs)	Listing Day - Close Price (Rs)	Listing Day Gain / Loss (%)	CMP As of (16/5/23, 12.00 Noon)	Gain/loss in value
1	Latent View Analytics Limited	600	326.49	197	488.6	148.02	332.9	168.985

2	Paras Defence And Space Technologies Limited	170.78	304.26	175	498.75	185	542.8	310.171
3	Salasar Techno Engineering Ltd	35.87	273.05	108	259.15	139.95	43.64	40.407
4	Apollo Micro Systems Limited	156	248.51	275	454.1	65.13	34.5	12.545
5	Astron Paper & Board Mill Ltd	70	241.75	50	119.7	139.4	26.89	53.780
6	Tega Industries Limited	619.23	219.04	453	725.5	60.15	981.9	216.755
7	MTAR Technologies Limited	596.41	200.79	575	1082.25	88.22	1909	332.000
8	Mrs Bectors Food Specialities Limited	540.54	198.02	288	595.55	106.79	644.5	223.785
9	Capacity Infraprojects Limited	400	183.03	250	342.4	36.96	164.6	65.840
10	Tatva Chintan Pharma Chem Ltd	500	180.36	1083	2310.25	113.32	1653	152.632



The amazing fact about the oversubscription in the above table is that all 10 companies had generated listing gain. 7 out of 10 companies generated more than 100% listing gain, and 3 out of 10 companies generated listing gain below 100%. (Listing gain is calculated against the issue price)



From the above chart, it is indicated that if an IPO issuing company is backed by Over subscription usually more than 180 times, 6 out of 10 companies are generating positive value for the long term and 4 out of 10 companies are creating negative value to the investors. The average gain of 6 positive value companies is 234% on its issue price, on the contrary hand the average loss of 4 companies in their value is just 43% as compared to the current price against the issue price. The current price is considered the price that existed on 16th May 2023. Another dimension of research is found that if oversubscription of a IPOs is more than 180 times, then there is a 60% chance that these companies are in profit on average of 243% and there is just a 40% chance that these companies can make the loss of 43% of their market value.

Larger size IPOs (Rs. 8500+ crores) and listing gain and long-term performance

Larger-size IPOs typically refer to Initial Public Offerings that involve a significant amount of capital raised by the company going public. It means that the company aims to raise a substantial sum of money through the IPO process, usually to fund its expansion plans, invest in research and development, pay off debt, or for other corporate purposes. Her research considered the large size IPOs when IPOs size is greater than 8500 Crores rupees. Here attention is attracted to see the listing gain and long-run performance of these IPOs.

Larger issue size IPOs (Rs. 8500+ crores) and listing gain and long-term performance

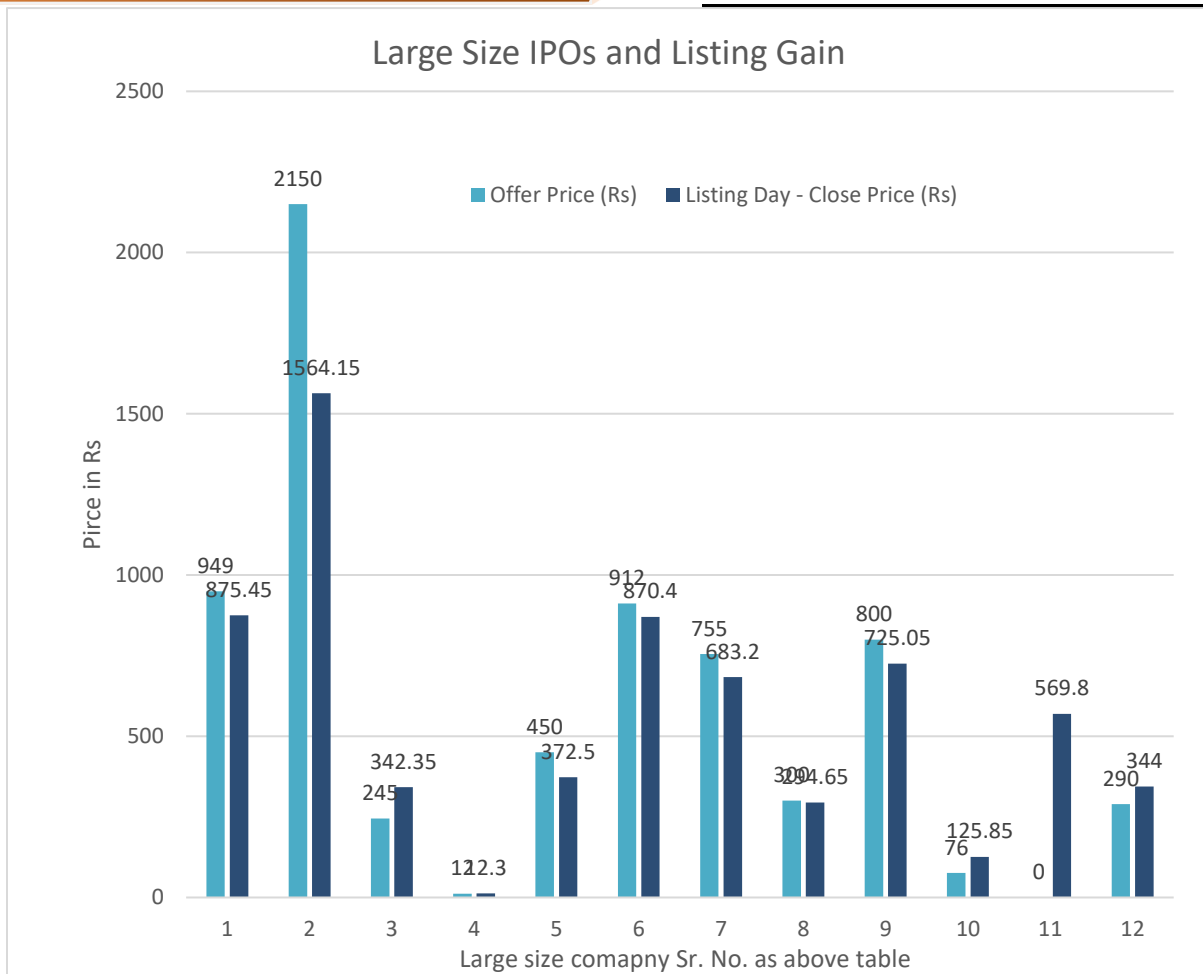
Sr. No.	Issue Name	Issue Size (Rs Cr)	Offer Price (Rs)	Listing Day - Close Price (Rs)	Listing Day Gain / Loss (%)	CMP	Gain of loss on the Issue price and CMP	Subscribed (x)
1	Life Insurance Corporation of India	21008.48	949	875.45	-7.75	567	-308.45	2.95

2	One 97 Communications Limited	18300	2150	1564.15	-27.25	710	-854.15	1.89
3	Coal India Limited	15199.44	245	342.35	39.73	273	-69.35	15.28
4	Yes Bank Ltd	15000	12	12.3	2.5	15.85	3.55	0.93
5	Reliance Power Limited	11563.2	450	372.5	-17.22	11.6	-360.9	73.04
6	General Insurance Corporation of India	11175.84	912	870.4	-4.56	167.85	-702.55	1.38
7	SBI Cards and Payment Services Ltd	10354.77	755	683.2	-9.51	890.95	207.75	26.54
8	NMDC Limited	9930.45	300	294.65	-1.78	106.75	-187.9	1.25
9	The New India Assurance Company Limited	9600	800	725.05	-9.37	115.1	-609.95	1.2
10	Zomato Limited	9375	76	125.85	65.59	63.7	-62.15	38.25
11	<u>DLF Ltd</u>	9187	525	569.8	0.3	468.15	-101.65	3.47
12	<u>HDFC Standard Life Insurance</u>	8,695.01	290	344	18.8	558.05	214.05	16

Sources: <https://economictimes.indiatimes.com/hdfc-life-insurance-company-ltd/ipos/companyid-3068.cms>
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 access on 16th May 2023

To analyse the same, the researcher divided the above information into three demotions: large-size IPOs and Listing Gain, Large size IPOs and subscriptions and Large size IPO and current price for long-run profitability.

In the following chart, the data of issue price and listing gain is presented for these top 12 large-size IPOs



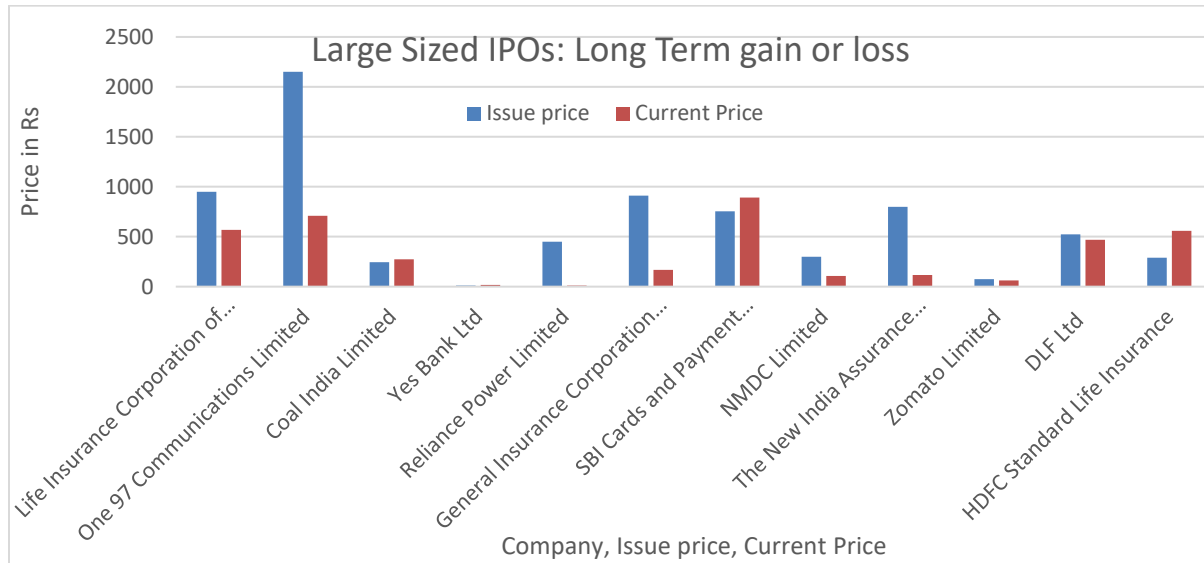
Large Size IPOs and Listing Gain

75% of larger-sized IPOs were listed below of issue price and generated negative listing gains. Several IPOs experienced negative listing day gains, indicating a decline in stock prices compared to the IPO issue price. Examples include One 97 Communications Limited, Life Insurance Corporation of India, Reliance Power Limited, General Insurance Corporation of India, SBI Cards and Payment Services Ltd, and The New India Assurance Company Limited. **Positive Listing Gains:** Some IPOs had positive listing day gains, with Zomato Limited standing out with a significant gain of 65.59%. Coal India Limited and HDFC Standard Life Insurance also had notable positive gains of 39.73% and 18.8%, respectively. **Marginal Gains/Losses:** Yes Bank Ltd, NMDC Limited, and DLF Ltd had relatively small listing day gains/losses, indicating minimal fluctuations in stock prices. It means that 25% of larger-size IPOs were listed above of issue price.

Larger sized IPOs and Long-term Return

Here an attempt is made to evaluate the long-term stock market performance of the large-sized IPOs. No dividend return is considered for the same. Out of the following 12 companies, 2 companies are 2 years old and the remaining are more than that

Larger-sized IPOs and Long-term Return (Stock Market Price only) (as of 15th May 2023)



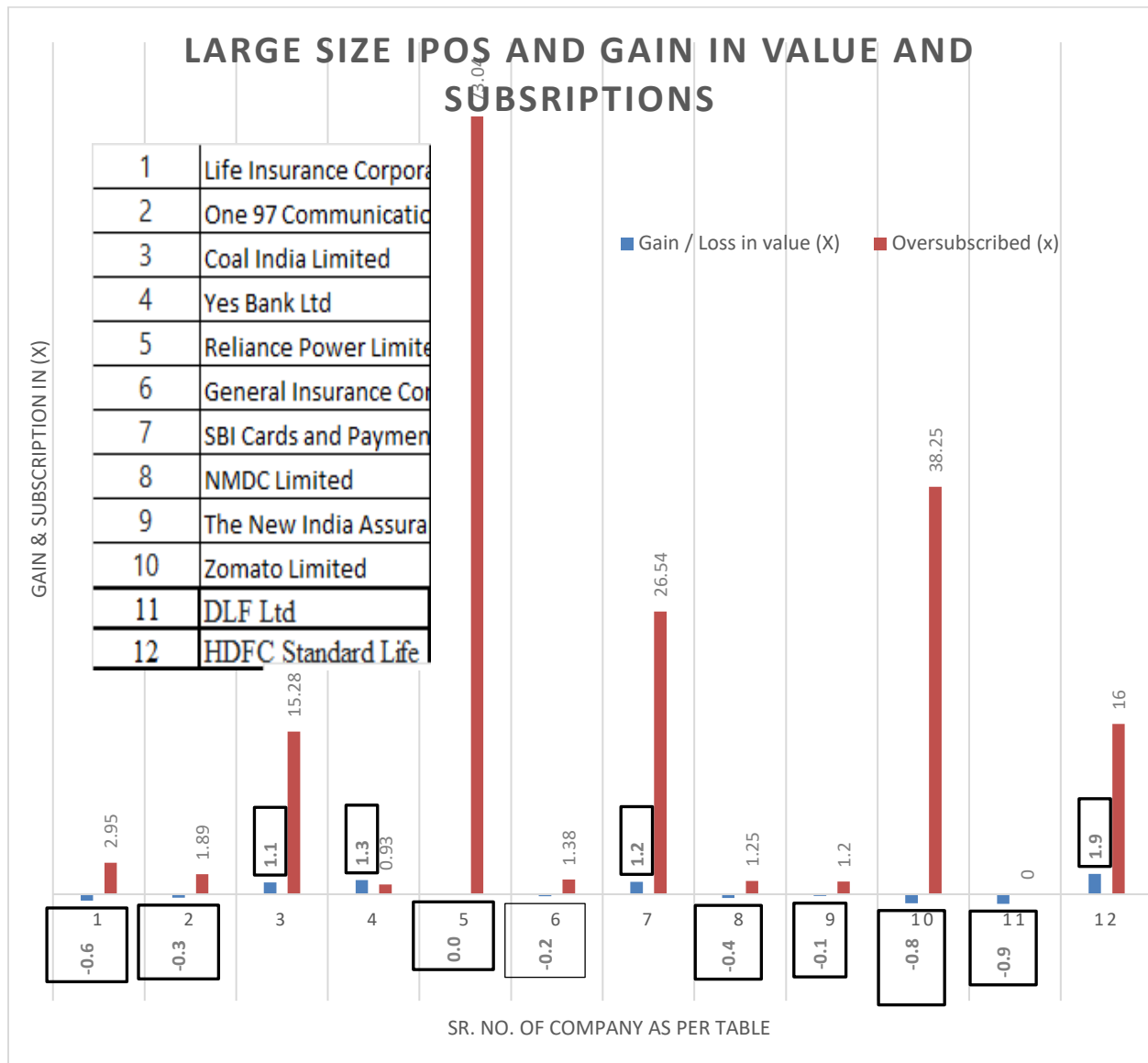
There are 12 companies for consideration as large size IPO out of these 12 companies, 9 companies failed to surpass their issue price and generated negative income on the stock market in the long run which means that 75 % of the larger-sized companies are trading below their issue price and on the contrary hand, only 3 out of 12 companies are generating a positive return on the stock market for the long term, it means that only 25% companies are trading in profit. Here the attention of the researcher is attracted towards the valuation^{iv} and financial performance of large-size IPOs. It is providing a base for further study. Some valuable opinions regarding these large-sized companies are incorporated below:

“Valuations of these companies were not supported by fundamentals and the balance sheets, and their cash burn was high,” said Arun Malhotra, a portfolio manager with CapGrow Capital Advisors LLP^v

Paytm, despite its prominent position in India's digital payments market, has faced a significant hurdle in terms of profitability. The company has encountered challenges in generating consistent profits, primarily attributed to its elevated marketing and sales expenses.^{vi}

Data from the Economic Times reveals that out of 164 IPOs from 2008 to November 2021, 100 of them are currently trading below their issue price. Among the remaining stocks that have generated positive returns, only 44 companies have delivered double-digit gains. In comparison, the benchmark Sensex has doubled in value over the same period. Analysts widely believe that the failure of certain IPOs can be attributed to aggressive pricing strategies employed by these companies.^{vii}

Large-size company and subscription for their IPO



Relation of Subscription and Gain in Value of large-size IPOs

From the given chart, it is observed that the relationship between oversubscription and gain/loss in value is not consistent. 8 oversubscribed IPOs have resulted in gains, while 4 have experienced losses. Before, 8 it is found that only 3 IPOs were over-subscribed more than 20 times. Out of 12 large-size IPOs, wherein another 2 IPOs were oversubscribed more than 15 times but less than 20 times, the remaining IPOs were oversubscribed lesser than 10 times. Here it is observed that there is no relation between the last size of the IPO and its impact on over-subscription. Another important observation is made here that IPOs of large-size companies which were over-subscribed for lesser than 5 times are trading below their issue price and IPOs which were oversubscribed for more than 30 times are also trading below their issue price and importantly 3 IPOs which were oversubscribed between 15 to 20 times are trading above their issue price.

Conclusion:

Based on the given data and observations, the following conclusions can be drawn:

Oversubscribed IPOs: The analysis indicates that if an IPO issuing company is backed by oversubscription usually more than 180 times, 6 out of 10 companies generated positive long-term value, while 4 out of 10 companies experienced negative value for investors. The average gain for the 6 positive value companies was 234% compared to the issue price, while the average loss for the 4 companies was only 43%. This suggests that oversubscribed IPOs have a higher chance of generating positive long-term returns for investors.

Large-Sized IPOs: The research reveals that 75% of the larger-sized IPOs listed below their issue price generated negative listing gains. This indicates that a majority of the larger-sized IPOs did not perform well on their listing day. Overall, 9 out of 12 larger-sized IPOs failed to surpass their issue price.

Relationship between Oversubscription and Long-term Performance: The relationship between oversubscription and long-term gain/loss in value is not consistent. While 8 oversubscribed IPOs resulted in gains, 4 experienced losses. Interestingly, the oversubscription level does not seem to have a direct impact on the long-term performance of IPOs. For instance, some IPOs with oversubscription levels below 5 times were trading below their issue price, while some IPOs with oversubscription levels above 30 times were also trading below their issue price. It indicates that oversubscription alone may not be a reliable indicator of long-term performance.

Relationship between Oversubscription and Listing gain: The relationship between oversubscription and listing gain is consistent. If the oversubscription is more than 180 times, then all companies generated listing gain. All selected companies generated listing gain.

These conclusions highlight the complex nature of IPO performance and the need for a comprehensive analysis that takes into account factors beyond oversubscription and IPO size, such as company fundamentals and valuation. Additionally, the findings suggest the importance of evaluating the financial performance and sustainability of larger-sized IPOs. Further research and analysis are necessary to gain a deeper understanding of the factors influencing the long-term performance of IPOs in the Indian stock market.

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