Performance of Initial Public Offerings (IPOs) in National Stock Exchange: 
A Study of Some Selected Companies in India

Abstract

This research endeavours in examining the empirical and exploratory evidences on the initial and after market performance of initial public offerings (IPOs) of some selected Indian companies which have gone through the IPO process. It has explored issues pertaining to conceptual, regulatory and international scenario of the IPO market of select developed and emerging nations along with the conceptual issues guiding the equity investment as well as IPO fundamentals. In this study, observed stock return data are employed to examine various methodologies which are used in event studies to measure equity performance adjusted for significant corporate events such as bonus, split, payment of dividend etc. We have drawn our theoretical relevance from the semi-strong form of EMH. The study examines the initial (listing day), short-run (up to a period of first six months) and long-run (from 1 year to 5 year) post-issue price performance of 47 IPO companies listed at NSE during 1999-2007. We have considered parametric and non-parametric tests for our entire study as per the convention of IPO literature. The results show that the Indian IPOs are underpriced on the initial day to the tune of 44 percent with respect to benchmark index CNX Nifty 500 under MAAR model. Using the daily returns for measuring short-run performance under MAER and MMAR model, we do find prevalence of substantial underpricing. To get possible explanations for short-run underpricing of IPOs, factors like, total assets, issue size, age and book value to market value at the time of IPO are also considered. The long-run result using the CAR methodology for daily and monthly return has provided contradictory results. We have also employed two most promising evaluation techniques i.e., wealth relative and buy-and-hold-abnormal return, both being adjusted with market index Nifty 500. The study have observed that long-run performance of IPO is very sensitive to the choice of methods employed and in most of the instances it fails to find statistically significant abnormal return, signaling the long-run underperformance as is experienced in the international scenario. However, unlike international experiences the Indian markets show some resilience even in the long-run.

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