EXECUTIVE SUMMARY

During the past two decades, numerous Indian firms have gone public by doing Initial Public Offerings (IPOs) of their equity shares. Yet many other Indian firms have intentionally chosen to remain private even though they fulfill the eligibility criteria of going public. This raises the query as to what are the determinants of firms' going public decision. While investigating the determinant factors of going public decision it was found that the financial performance of Indian firms deteriorates in post IPO period. When the literature was reviewed on this issue it was found that the deterioration of financial performance in post IPO period was not unique to the Indian firms. Research based on sample of developed countries like US and UK also documented the similar results.

Researcher took this issue to further level by examining the reasons for the deterioration of financial performance in post IPO period. Researcher identified three possible reasons for the deterioration: change in promoter’s ownership around IPO, information asymmetry and market timing behavior. The reasons are further explored in the study with suitable tools and techniques.

The research issues are examined using six independent analyses. First, a panel probit regression analysis is done to identify the characteristics of going–public Indian firms. This analysis reveals that going–public Indian firms tend to be younger, riskier, transparent, more profitable, experiencing higher sales growth and large sized than firms that decide to remain private. In the second analysis, post consequences of IPOs on firm characteristics are examined by comparing pre-IPO characteristics of IPO firms with their post-IPO characteristics using Wilcoxon two-
sample signed rank test. This analysis suggests that Indian firms go public to: finance their growth and investments, diversify owners’ risk, rebalance their capital structure and bring down their borrowing rates. In the third analysis, post IPO performance of firms are compared with their pre IPO performance using Wilcoxon two-sample signed rank test. The analysis revealed that the financial performance of Indian firms deteriorates in post IPO period.

In the fourth analysis, the relationship between performance and decline in promoter’s ownership around IPO was examined with a panel data estimations. Analysis based on panel data showed that there is a curvilinear relationship between ownership and performance. The results suggest that firms with “low” and “high” levels of managerial ownership experience negative relationships with firm performance (entrenchment hypothesis), while firms with ‘intermediate’ levels of managerial ownership exhibit a positive relationship with firm performance (alignment-of-interest hypothesis). In the fifth analysis, the relationship between performance and underpricing (as a signaling mechanism) was investigated. The results concluded that underpricing could not be held responsible for the deterioration in post IPO performance. The difference in the change in performance for both the group was investigated through wilcoxon sign rank test, which rejected the alternate hypothesis that the difference in deterioration in performance could be attributed to underpricing.

In the sixth analysis, the relationship between market timing and performance was examined. Results obtained by examining, the earning potentials like P/E and M/B and earnings like EPS, from IPO year to two year after IPO suggest that investors expectation that earnings growth will continue after IPO were not even sustained. The constant decline in P/E and M/B suggest that
firms took advantage of over-optimism of investors. The result based on multivariate regression suggest that Market timers, identified as firms that go public when the market is hot, tried to maximize the total proceeds at the time of IPO.