Chapter 6

Findings and discussion
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6.1 Introduction

Findings are the soul of any research, without which any study loses its meaning. Findings give an insight to the problem under study, provide replies to unanswered research questions, and fill the research gap in the relevant research area. Finding are the crux which are themselves narrate the purpose and outcome of research and help the beneficiaries, in this study retail investors and managers. This section discusses the finding of research. The summary of findings of the analysis is shown below.

6.2 Findings

The findings with reference to the each objective along with the general finding are noted herewith.

6.2.1 Finding for Objective 1

Objective 1: To identify market timing mechanism for selected Indian firms.

In a generalized term market timing refers to actions of managers to sell overvalued securities and buy undervalued securities. To prove this objective I used co-efficient of MB ratio of each hypotheses 1-A, 2 –A, 3 –A, 4 –A, 5 –A, 6 –A and 7 A.

- The co-efficient of MB ratio is highest at IPO year and never been touched to this level in the six years of IPO. This is the strongest proof that equity is only issued when valuation is higher (MB).
This clearly shows that overall equity issuance is influenced by valuation of the firm. Although the results are quite mixed for the individual year after IPO.

Even for the first year of IPO the hypotheses was not proved. But the highest level of co-efficient proves that in a generalized approach equity market timing does prejudiced by valuations of the firm.

### 6.2.2 Finding for Research objective 2

To identify impact of equity issuance on valuation of the firm together with other control variables from pre-Initial Public Offering period to six years Post Initial Public Offering periods.

This objective is inline with the objective first. For this also I use data from regression analysis of 1-A, 2-A, 3-A, 4-A, 5-A, 6-A And 7-A. The result of these seven hypotheses has been mentioned here.

<table>
<thead>
<tr>
<th>Hypotheses No.</th>
<th>Acceptance/Rejection</th>
<th>Propounding variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypotheses 1 –A (IPO)</td>
<td>Rejected</td>
<td></td>
</tr>
<tr>
<td>Hypotheses 2 –A (IPO + 1)</td>
<td>Accepted – 99%</td>
<td>Profitability, size</td>
</tr>
<tr>
<td>Hypotheses 3 –A (IPO + 2)</td>
<td>Rejected</td>
<td></td>
</tr>
<tr>
<td>Hypotheses 4 –A (IPO + 3)</td>
<td>Rejected</td>
<td></td>
</tr>
<tr>
<td>Hypotheses 5 –A (IPO + 4)</td>
<td>Accepted – 95%</td>
<td>MB</td>
</tr>
<tr>
<td>Hypotheses 6 –A (IPO + 5)</td>
<td>Accepted – 95%</td>
<td>Profitability, size</td>
</tr>
<tr>
<td>Hypotheses 7 –A (IPO + 6)</td>
<td>Accepted – 90%</td>
<td>MB</td>
</tr>
</tbody>
</table>

Out of seven hypotheses four are statistically significant. Out of four also only one is 99% statistically significant rest of others are at lesser degree of statistically significance rate. This does not strengthen that equity issuance has influence of valuations for some time period. The highest degree of significance at the IPO +1 (which is the difference of variables from IPO + 1 to IPO years) years show that
valuation does matter at the time of issuing equity. After IPO, valuation does not matter for subsequent years for issuing more equity not thorough IPO, but through right offers or bonus offer.

6.2.3 Finding for Research Objective 3

To identify impact of debt issuance on valuation of the firm together with other control variables pre-Initial Public Offering period to six years Post Initial Public Offering periods.

To verify, this objective use data from regression analysis of 1-B,2-B,3-B,4-B,5-B,6-B And 7-B. The result of these seven hypotheses has been mentioned here.

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<td>Size</td>
</tr>
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<td>Accepted – 99%</td>
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</tr>
<tr>
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<td>Rejected</td>
<td></td>
</tr>
<tr>
<td>Hypotheses 7–B (IPO + 6)</td>
<td>Rejected</td>
<td>MB</td>
</tr>
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The above table shows that out of seven times four times hypotheses have rejected null hypothesis and accepted alternative. From this also most hypothesis is statistically significant, which proves more than 50% of time the profitability and size have significant impact on the changes in book leverage and not due to the changes in the valuation. This proves that changes in book leverage are not attributed to the changes in valuation but to the size and profitability of the firms.

The possible reason is that as size (sales) increases firm have to take more leverage and similarly profitability also have propounding impact on the book leverage.
6.2.4 Finding for Research Objective 4

Research Objective 4 - To identify impact of retained earnings on valuation of the firm together with other control variables pre-Initial Public Offering period to six years Post Initial Public Offering periods.

To verify, this objective I use data from regression analysis of 1-C, 2-C, 3-C, 4-C, 5-C, 6-C And 7-C. The result of these seven hypotheses has been mentioned here.

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<tr>
<td>Hypotheses 1 –C (IPO)</td>
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<td></td>
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<td>Hypotheses 2 –C (IPO + 1)</td>
<td>Accepted – 99%</td>
<td>Profitability, size</td>
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</tr>
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<td>Hypotheses 5 –C (IPO + 4)</td>
<td>Rejected</td>
<td></td>
</tr>
<tr>
<td>Hypotheses 6 –C (IPO + 5)</td>
<td>Accepted – 99%</td>
<td>Profitability</td>
</tr>
<tr>
<td>Hypotheses 7–C (IPO + 6)</td>
<td>Accepted – 99%</td>
<td>Profitability</td>
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The above table shows that out of seven times four times hypotheses have rejected null hypothesis and accepted alternative. From this also most hypothesis is statistically significant, which proves more than 50% of time the profitability and size have significant impact on the changes in retained earnings and not due to the changes in the valuation. This proves that changes in retained earnings are not attributed to the changes in valuation but to the size and profitability of the firms.

The possible reason is that as size (sales) increases firm have more profitability and this increased profitability is retained for future uses.

6.2.5 Findings for Research Objective 5
To find whether the primary proceeds raised from Initial Public Offering are utilized for investment projects or not. In other words, to check that investment decisions are based upon primary proceeds or on secondary sources.

To verify, this objective I use data from regression analysis of hypotheses 8.

A hypothesis 8 was very simple and statistically significant in all aspects except investment decision taken by firm.

The hypotheses prove that all the action like capital expenditure, other investments, debt reduction, and dividend are financed by secondary as well as primary proceeds. But investments are only financed by residual resources. This is also joined by the proof that most of the time primary proceed are used to increase cash holdings.

The hypothesis also proves that main reason for issuance of equity is only to increase cash holdings and none another.

In a generalized approach, this study shows financing and investment decision of selected Indian firms. Financing decision shown by equity issuance decisions and investment decisions shown by use of assets.

It proves that none of the factor affects the valuation of the firm. Equity issuance is the least affected by the valuation of the firm as proved by least p value of hypotheses but co-efficient strengthen the fact that equity issuance do affect valuations at least at the time of issuance afterwards its effect diminishes.

For other hypotheses like changes in book leverage and retained earnings are purely attributable to the profitability and size and not to the valuation changes.

The other hypothesis also proves that mangers are only exploiting the market and investors to take advantage of high valuation so to get more money. This raised capital is not used for any other genuine investments, rather investments is only backed by residual resources but not from the primary proceeds.

6.3 Research scope

- The research is confined to the 46 selected companies who raised IPO during 2002-2005.
• Such firms exclude financial firms, government firms, merged firms and Banks as they are having their own rules for capital structure. Any mechanism of market might not affect these companies.

• This research is confined first to the equity market timing mechanism for an Indian market. This concept deal with the actions of managers to issue equity when it is overvalued and buy back when it is undervalued.

• The research is only limited to issuance of equity, buy back under the undervaluation situation is out of the scope of this research

• The research is also limited to the mispricing driven market timing mechanism where any one market participants are assumed to be rational.

• The adverse selection of market timing is not the topic of this research.

6.4 Limitations

• As mentioned earlier also, every research has some limitations.

• First limitation of this study is data availability. It is very difficult to get all the data at one premise. Some database system has one or other data missing. So for the remaining data other sources must be evaluated.

• Other most important limitations of my research are measurement of data. The most cited reference paper, Baker and wugler (2002a) have used and mentioned directly database number in their paper, which is very difficult to identify. It was very tedious and hard work to identify each variable from the user manual of data base and than applies the same variable for an Indian companies.

• The third important limitation is data validity. The database available in the library is differing with each other and with annual reports. So it is very important to identify such deviation and whenever such deviation of information occurs researcher had cross checked data from most authentic source.

• The other important limitation is choice of samples. The motive behind choosing samples of the firm who raised IPO between 2001 to 2005 is only to get more data after IPO date. For example I want data of seven year post IPO for the company who raised IPO in 2005, but it was not available at the time of research. After almost completing 80% of research, this trend comes to the mind of researcher which is actually very limiting factor. (as most of IPOs are floated in the market after 2005 which might gave good and rich data to test hypotheses) Apart form this more B
group companies in the sample biased whole research. so result is not of good quality with most of B group companies.

6.5 Managerial actions

- As shown in the research objective three the IPO is not issued out of genuine need instead of greed and temptation. A retail investor should avoid such trap and should not bid their wealth for such IPOs. There some reason why and how this occurs.

- Information Asymmetry
  The information asymmetry theory assumes that the I.P.O. pricing is a product of information disparities. Information asymmetry known as the process where uninformed investors bid IPO without regard to the quality of the I.P.O. while informed investors bid only if they have perfect idea of gain or loss on such IPOs. To make IPO more attractive more and more uninformed bidder should bid IPO and this has been done by reprising done by underwriters.

- Managerial Conflicts
  The managerial conflict theory posits that management is the primary cause of the under pricing. In its principal form, the manager conflict theory postulates that management creates excessive demand for I.P.O. shares in order to ensure that management can sell their holdings after a contractual 3 year lockup for a higher price.

- Regulatory Framework Regarding IPO’s
  In 1992, Securities & Exchange Board of India (SEBI) was established to regulate the Capital market and to provide a governed environment for the Indian capital market. In Indian primary market have many participants and one regulator who keep watch on such overvaluation of securities as well as under pricing of IPOs.

- SEBI should provide protective guidelines to each retail investor before applying for the IPO. As every company has to show minute details to the SEBI in the form of red herring prospects which can be remain opened for the three months. The most crucial part is that SEBI must involve in pricing of the IPOs in order to prevent such bids. SEBI should highlight important details of the company on the front page. Such important details include three years financial data, and most important business plan of the firm for which they have raised money.
6.6 Future work

This study can be improved by taking other means of market timing as discussed in the models in literature review. Such means are like hot market timer, insider trading which are not rarely available in Indian context. The study can also be improved by considering other control mechanism and by taking large sample size. One possible instant remedy is to take most of A group company and analyzing their behavior for market timing can prove it in Indian context. The other alternate is to check by taking samples of any particular industry like only software or media. Such research might provide good insight for industrial characteristics as well as industry driven features for market timing mechanisms.

6.7 Conclusion

The research in this field clearly proves that Indian markets are not completely behaviorally driven. Behavioral finance has not yet touched all aspects of corporate finance. Rather corporate finance is yet dominated by the traditional theories of rationalism and efficiency. In order to get more involvement from behavioral finance, it needs more research in the field. The behavioral corporate finance is almost untouched by many academicians and researcher with assumption of more participation of psychological attributes. As behavioral finance is getting involved in retail investor behavior, more and more research would also make behavioral corporate finance field attractive. If the good and qualitative research has been explored, it provides good insight for corporate manager’s for taking decisions.