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Under pricing or Overpricing of the Initial Public Offering (IPO's): A Study of Indian IPO market

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Abstract: *Underpricing is a phenomenon which has existed worldwide as well as the overpricing. The study has made an attempt in order to analyze the IPO market of India, to observe the phenomenon of underpricing as well as overpricing. The period been considered for the study is 2012 to 2017, which includes the companies that has gone for the IPO process. From the analysis it can be made clear that there is a presence of underpricing as well as overpricing. Underpricing exists for the years 2014, 2015 and 2017 where as overpricing exists for the years 2013, 2012 and 2016. So the analyses make it clear that the presence of both underpricing as well as overpricing exists in the Indian IPO market and hence the investors analyzing the fundamentals properly need to make the decision of investments.*

Key Words: *Initial Public Offering, flotation, Public Offerings, Secondary Market.*

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I. Introduction to IPO

Usually the IPO is referred to as a flotation, which the public issuer or a company for that matter that proposes to the interested public in the form of shares or ordinary stock. So the first sale of stock by a private company to the general public is defined as IPO. Firms that are looking for funds to grow as well as to expand their business go for IPO and are generally offered by new and medium-sized. And it is also in general is referred to as an "public offering"

The Basics of private and public:
Companies mainly can be classified into the broad categories such as:
- Private and
- public

A privately held company have a fewer shareholders of which its owners don't have to disclose much of the information about the organisation. With the no exceptions that large companies can also be privately held, most of the small businesses are also held privately, like wise examples of Domino's Pizza as well as Hallmark Cards are being held privately. At the discretion of the owners only the shares of private companies can be reached to the investors, whereas on the other hand, public companies who have issued shares on the stock exchange, have sold at least a portion of their business to the public during the process of IPO issue and thereby on an a stock exchange, will trade. Hence this is why doing an IPO process is generally referred to as going public.

Why go public?

The main reason for going public is to raise the capital required for the organisation through the various financial avenues that are offered. Besides that, the other factors include to go for an IPO are mentioned below:
- Due to increased scrutiny, Public companies usually get better rates when they issue debt.
- A public company can always issue more stock, as long as there is market demand.
- Liquidity is achieved by trading in the open markets.
- In order to implement things like employee stock ownership plans, which help to attract top talent of the industry, is possible only by Being Public.

Before applying for a Public Offering the Factors to be considered:
There are certain factors which needed to be taken into consideration, before applying for IPO in India:
- The firm's historical record which is providing the Public Offerings
- The reliability, and the past records of the Promoters
- The potential going forward, and the Products offered by that particular firm
- With the technological firm, Whether the firm has entered into a collaboration

- The value of Project and sponsoring the plan with the various techniques
- The estimate of Productivity in the project
- All Risk aspects which is engaged in the execution of the plan

II. Review of Literature

David R. Williams, W. Jack Duncan and Peter M. Ginter (2010) have analyzed the relationship among secondary-market, Pre-market, and the primary-market characteristics. Signalling theories and the agency theories have been utilized in the study. Study examines the high-technology firms which are seeking for an IPO for the agency and market signals which is related to a sample chosen for the study. For the purpose of examining for IPO offer process in high-technology firms a model have been tested. The results of the study indicates the secondary market factors have not affected the offer price of the IPO but the offer price is affected by certain primary market and Pre-market factors which is received by the entrepreneurs and the investors.

Qiming Wang and James A. Ligon (2009) have examined the extant literatures which documents that insurance IPO's are less underpriced compared to that of non-insurance IPO firms. For the regulated firms the observed difference is attributed towards the lower asymmetry of information. Study finds that for the purpose of the file price adjustment when one controls for the IPO's of insurance, both the mutual as well as the stock, are no less underpriced than the other offerings of non-insurance IPO's, by signifying that the process of book building resolves any such type of asymmetries of information's. Study also have found that the mutual IPO's appear to be more underpriced compared to that of stock insurance IPO's, but the difference which is arising is connected to the difference in the pre-issue managerial ownership.

Michael B. Heeley, Sharon F. Matusik and Neelam Jain (2007) have made the observation concerning the underpricing and have reported that underpricing scholars have well established the prominence of general quality indicators in minimizing the underpricing and information asymmetries. Study concentrates to identify the role of innovation in underpricing using the theory of information asymmetries. A model have been tested, the patents will reduce the asymmetries of information in those industries where the relation between the inventive returns and the patents is transparent, thus by dropping the underpricing of IPO. On the other hand study observes that increased information asymmetries reflected by the patents and also underpricing of IPO in those industries where the relation is not transparent. By examining a sample of 1,413 IPO's, study finds a strong support for the hypotheses framed. Study have made an important contribution theoretically that IPO market contextualizes the firms information.

Raghuram Rajan and Henri Servaes (1997) have analyzed the IPO's which were completed during the years 1975 to 1987 in order to make an observation by finding out that how IPO's are related to various well documented anomalies. The results of the study show that higher underpricing leads to the increased following of the analyst. When the earnings potential as well as the long term growth prospects of the recent IPO's is considered, analysts are quite overoptimistic about it. And also the study could see that more firms complete IPO's when analysts are particularly optimistic about the growth prospects of new IPO's. When the analysts ascribe for a low growth potential rather than high growth potential IPO's will have better stock performance in the long run. Study also suggests that IPO anomalies can also be driven partially by the analyst over optimism.

1.3 Objectives of the Study:

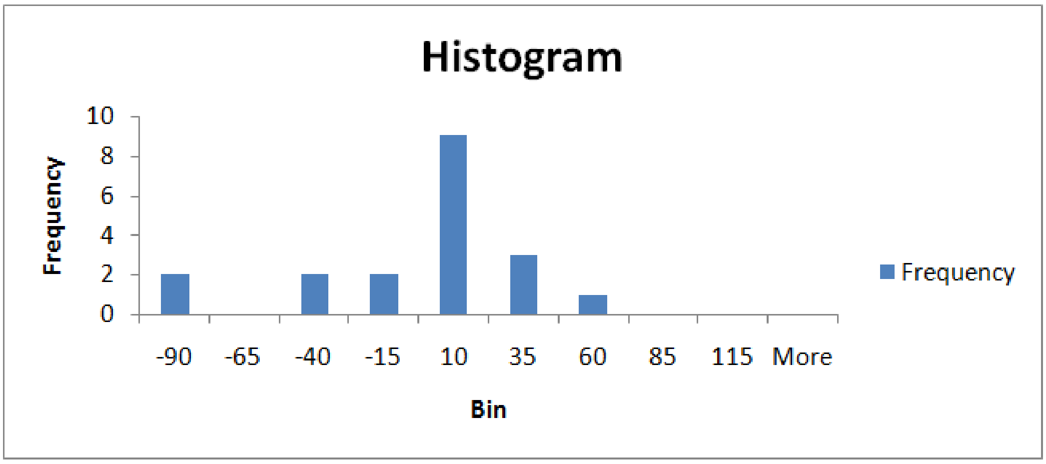
- To analyze the Various IPO issues in the Indian capital Market.
- To empirically test the underpricing of IPOs in Indian Equity Market

1.4 Data Collection and Research Methodology

- The research design for this particular study is based on the descriptive and exploratory in nature for which the approach of quantitative is been used.
- Study is based on the secondary sources of data and is collected from the capital line data base and other internet sources.

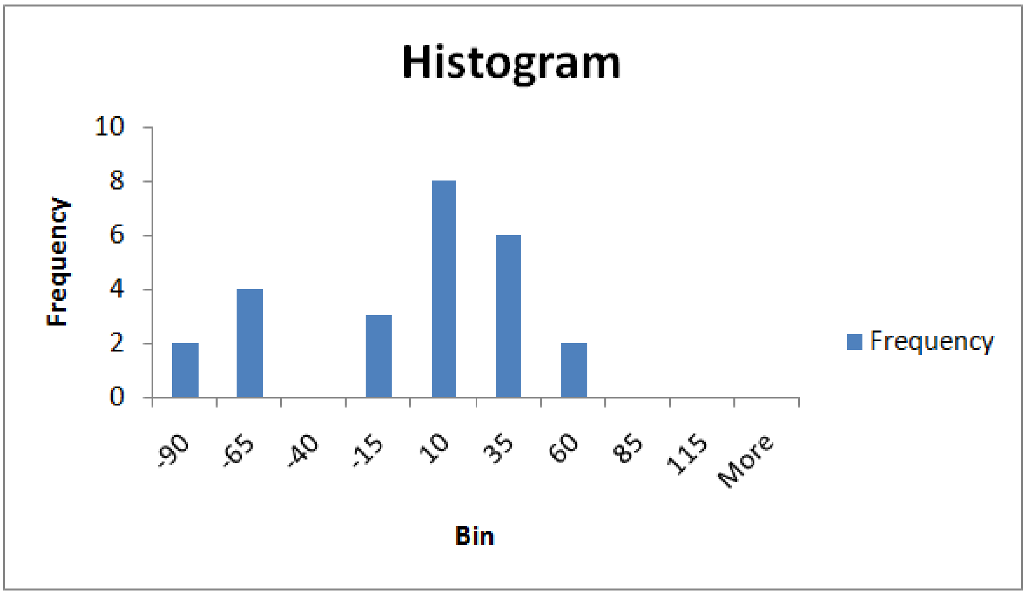
1.5 Analysis and Interpretation

Graph - 1: shows histogram for the IPO issues of the year 2012



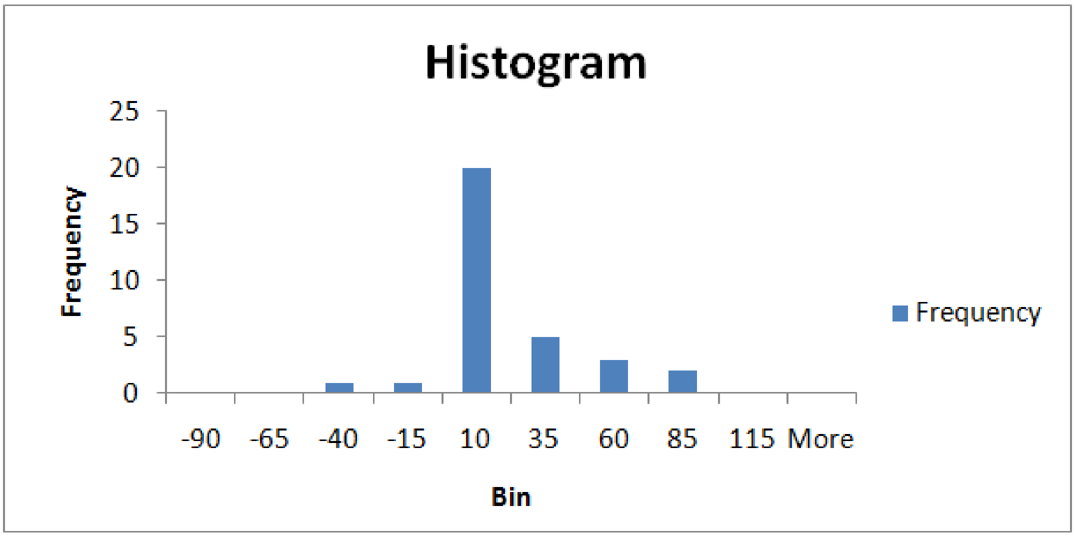
Interpretation:
- As the value of skewness obtained from the study is negative and that is -1.06, which indicates that the curve has a skewness which is negative.
- So it can be interpreted as underpricing does not exist in this sector because of negative returns obtained by the investors.
- The size of the IPO offerings is 19 for the year 2012.

Graph - 2: shows histogram for the IPO issues of the year 2013



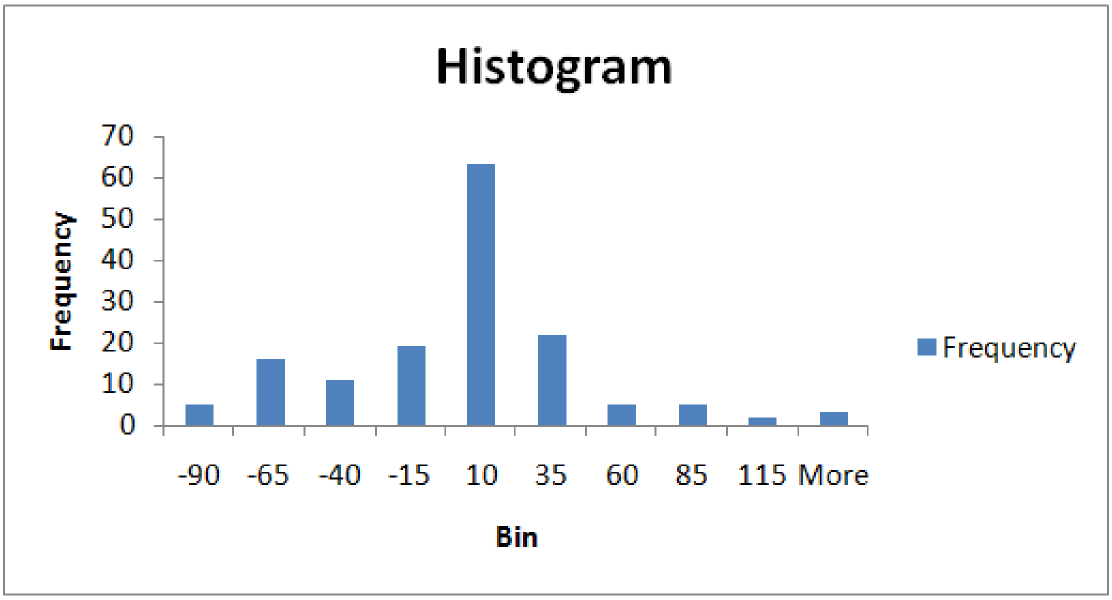
Interpretation:
- As the value of skewness obtained from the study is negative and it is -0.65, which indicates that the curve has negative skewness as indicated by the value.
- So the interpretation can be explained as underpricing does not exist in this sector because of negative returns obtained by the investors who have made the investment.
- The sample considered is quite small with the number of IPO offerings is 25 for the year 2013.

Graph - 3: shows histogram for the IPO issues of the year 2014



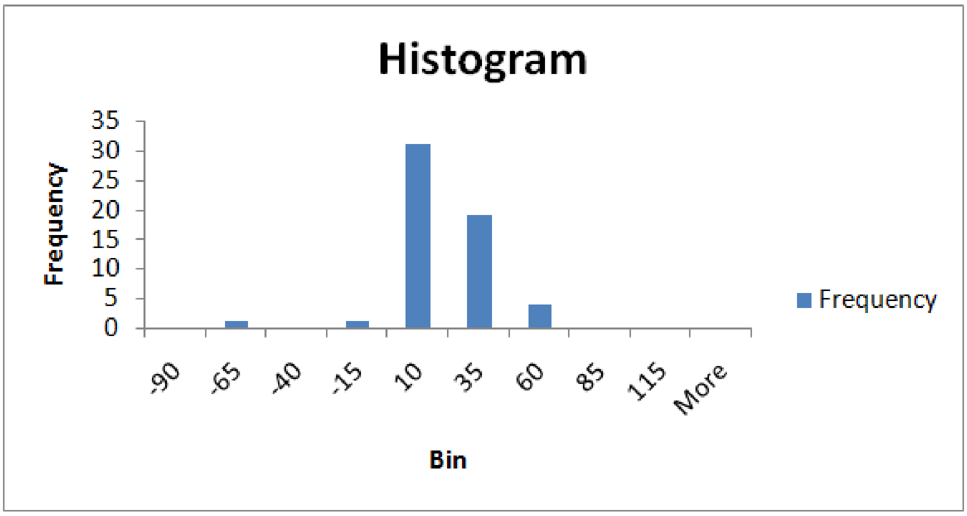
Interpretation:
- As the value of skewness obtained from the study is negative and it is 1.13, which indicates that the curve has a positive skewness.
- So it can be interpreted as underpricing occur exists because of positive returns obtained by the investors.
- The number of IPO considered is 32 for the year 2014.

Graph - 4: shows histogram for the IPO issues of the year 2015



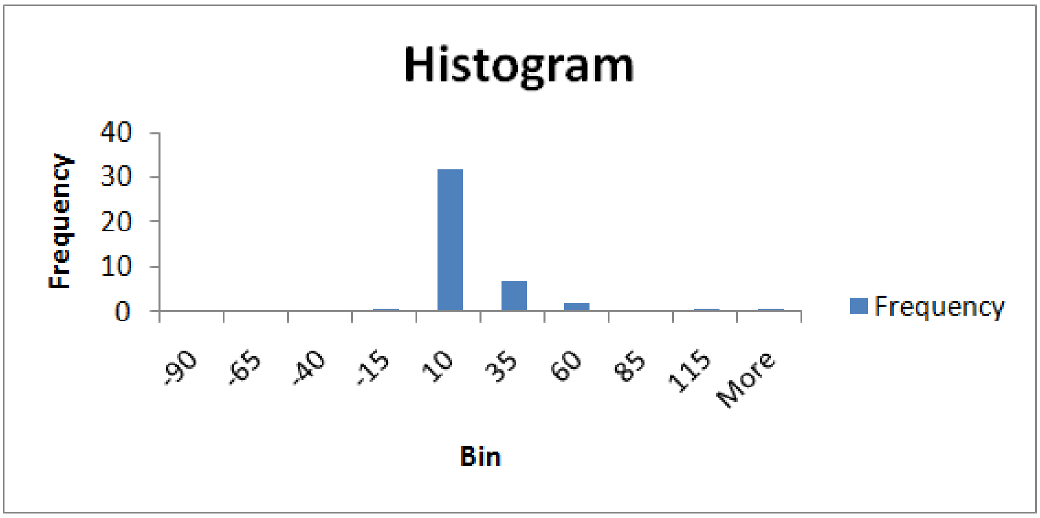
Interpretation:
- As the value of skewness obtained from the study is positive for which the value obtained is 0.20, which indicates that the curve has positive skewness.
- So it can be interpreted as underpricing exists because of positive returns obtained by the investors.
- The number of IPO's considered is 9 for the year 2015.

Graph - 5: shows histogram for the IPO issues of the year 2016



Interpretation:
- As the value of skewness obtained from the study is negative and it is -1.08, which indicates that the curve has a low degree of negative skewness.
- So it can be interpreted as underpricing does not exist because of negative returns obtained by the investors.
- The number of IPO's considered is 56 for the year 2016.

Graph: 6 - : shows histogram for the IPO issues of the year 2017



Interpretation:
- As the value of skewness obtained from the study is positive and the value obtained is 3.63, which indicates that the curve has a positive skewness.
- So it can be interpreted as underpricing exists because of positive returns obtained by the investors.
- The sample size considered is 44 IPO issues for the year 2017.

Table: 1: Below table shows the presence of underpricing as well as overpricing for the years between the periods 2012 – 2017.

Year of the IPO Issue	Underpricing/Overpricing	Skewness Value
2012	Overpricing	-1.06
2013	Overpricing	-0.65
2014	Underpricing	1.13
2015	Underpricing	0.20
2016	Overpricing	-1.08
2017	Underpricing	3.63

III. Conclusion

Finally it can be concluded that by analysing the data for various years of IPO's from 2012 to 2017, the results obtained exhibits that in the IPO market of India, underpricing as well as overpricing of the public offering exists. This means that between 2012 and 2017, only three years which is 2012, 2013 and 2016 poses overpricing in which investors make losses and 2014, 2015 and 2017 poses underpricing in which investors gains with profits. So finally the presence of underpricing as well as overpricing has been experienced in Indian equity market between the years 2012 to 2017. Underpricing helps the investors to gain the positive returns where as overpricing makes the investors to obtain loss from their investments been made in the IPO's.

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