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THE DYNAMICS OF INITIAL PUBLIC OFFERINGS: AN ANALYTICAL APPROACH TO MARKET PERFORMANCE AT HDFC

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ABSTRACT

An **Initial Public Offering (IPO)** is the process through which a private company offers its shares to the public for the first time and gets listed on a stock exchange. IPOs provide companies with an opportunity to raise capital from investors for business expansion, debt repayment, research and development, acquisitions, and other corporate purposes. Through an IPO, a company transitions from private ownership to public ownership, allowing a wider investor base to participate in its growth and profitability.

The IPO market plays a significant role in the development of capital markets by facilitating the flow of funds from investors to businesses. It provides investors with an opportunity to invest in emerging and established companies at an early stage of their public journey. The success of an IPO depends on various factors such as the company's financial performance, industry prospects, market conditions, pricing strategy, and investor sentiment.

This study focuses on understanding the concept, process, advantages, and challenges of Initial Public Offerings. It also examines the performance of IPOs and their impact on investors and companies. The analysis helps in evaluating whether IPO investments generate satisfactory returns and contribute to wealth creation. The findings of the study provide valuable insights into the functioning of the primary market and assist investors in making informed investment decisions regarding IPO participation.

I. INTRODUCTION

Initial Public Offer (IPO), is the **first sale of shares** by the privately owned company to the public. The companies going public raises funds through IPO's for working capital, debt repayment, acquisitions, and a host of other uses.

Investor can apply for **IPO Stocks** by filling an IPO Application Form. These forms are usually available with stock brokers for free. Investor can also apply for IPO Stocks online through Online Stock Brokers like ICICI bank, Share Khan, and Reliance Money.

Chittorgarh.com, India's No. 1 IPO investment portal provide recent IPO information from primary stock market. IPO Tools available on this website includes **IPO Allotment Status**, IPO Bidding Information, **IPO Ratings**, IPO Grading, IPO Reviews, **Grey Market Premiums** of IPO's, IPO News and IPO Performance Tracker.

In an IPO the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market.

An IPO can be a risky investment. For the individual investor it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value.

Capital market is an essential pre-requested for industrial and commercial development of a country. Capital market refers to the institutional arrangement which facilitates the borrowings and lending of long term fund. In capital market we can divided into two parts they are primary and secondary market. In primary market also known as new issue market. It represents primary market where new securities i.e. shares or bonds that have never been previously offered. The importance of this study is analyzing the IPO scrip's during the year 2006 to

2010. This study based on differences of Issue price and LTP. In order to whether the IPO's are overpriced or under priced. The investor how get the gain or loss. The study continued based on the only 2 parameters they are Issue price and LTP. The differences of LTP & Issue price we can describe the scrip is overpriced or under priced. Not other parameters considered. This study shows that sector wise scrip's are overpriced or under priced.

In this study find the IPO how gives the benefits and given the guidelines and suggestions to the investor. Before selecting a company the investor should think about the company. A good investor should diversify and reduces his risk by investing in different securities. Primary market returns are very attractive in short period especially on the day of listing. But investor in IPO's should take wise decision in choosing the best company.

NEED FOR THE STUDY:

1. IPOs are often looked upon as a speculative opportunity to earn abnormal profits on the listing day. Companies which decide to go public face the added pressure of the market which may cause them to focus more on short-term results rather than long-term growth. The actions of the company's management also become increasingly scrutinized as investors constantly look for rising profits.
2. This may lead management to perform somewhat questionable practices in order to boost earnings. Before deciding whether or not to go public, companies must evaluate all of the potential advantages and disadvantages that will arise and fix prices that are in the best interest of the company and investors. This study helps the investor to decide the suitable investment strategy to get maximized returns.

SCOPE OF THE STUDY:

The scope of this study is to examine the concept, process, and performance of Initial Public Offerings (IPOs) in the capital market. The study focuses on understanding how companies raise funds through IPOs and the benefits derived from public listing. It analyzes the factors influencing IPO success, including market conditions, company fundamentals, issue pricing, and investor demand.

The study covers the evaluation of IPO performance from both the company's and investors' perspectives. It examines subscription levels, listing gains, post-listing price movements, and the overall impact of IPOs on wealth creation. The research also explores the risks and opportunities associated with IPO investments and assesses investor behavior in the primary market.

Furthermore, the study is limited to selected IPOs and available financial data during the specified period. The findings aim to provide valuable insights for investors, companies, researchers, and policymakers regarding the effectiveness and performance of IPOs in the financial market.

OBJECTIVES THE STUDY:

1. To understand the concept and process of Initial Public Offerings (IPOs).
2. To analyze the role of IPOs in raising capital for companies.
3. To examine the factors influencing the success of an IPO.
4. To evaluate the financial and market performance of companies after their IPO.
5. To study investor participation and investment behavior in IPOs.
6. To assess the risks and returns associated with IPO investments.
7. To analyze the impact of IPO pricing on investor returns.
8. To compare the performance of different IPOs across various industries.
9. To identify the advantages and challenges faced by companies during the IPO process.
10. To provide suggestions for investors to make informed decisions while investing in IPOs.

II. METHODOLOGY OF THE STUDY:

The data collection methods include both primary and secondary collection methods.

Primary Data: This method includes the data collected from the personal interaction with authorized members of HDFC.

Secondary Data: The secondary data collection method includes:

The lecturers delivered by the superintendents of respective departments.

The brochures and material provided by HDFC.

The data collected from the magazines of the NSE, economic times, NSE website, etc.

Various books relating to the investments, capital market and other related topics.

TOOLS USED FOR ANALYSIS:

1) TABULATION: A Table is a systematic arrangement of statistical data in rows and columns. Rows are horizontal arrangements whereas columns are vertical. Tabulation is a systematic presentation of data in a form suitable for analysis and interpretation.

The tables used are as follows:

- **a)** One way table: It presents only one characteristic and hence in answering one or more independent questions with regard to those characteristics.
- **b)** Two-way table: It contains sub divisions of a total and is able to answer two mutually dependent questions.

2) DIAGRAMETIC AND GRAPHICAL REPRESENTATION OF DATA: A picture is worth a thousand words. The impression created by a picture has much greater impact than any amount of detailed explanation. Statistical data can be effectively presented in the form of diagrams and graphs. Graphs and Diagrams make complex data simple and easily understandable. They help to compare related data and bring out subtle data with amazing clarity.

The Diagram used are as follows:

- **a)** Bar diagrams: Bar diagrams are used specifically for categorical data or series. They consist of the group of equi-distant rectangles, one for each group or category of data in which the values of magnitudes are represented by length or height of rectangles.
- **b)** Sample Bar diagram: It is used of comparative study of two or more aspects of a single variable or single category of data.

LIMITATIONS OF THE STUDY:

1. The study is based primarily on secondary data collected from company reports, stock exchange records, financial websites, and other published sources.
2. The analysis is limited to selected IPOs and may not represent the performance of all IPOs in the market.
3. The study covers a specific period; therefore, the findings may differ under changing market conditions.
4. Fluctuations in economic, political, and regulatory environments can influence IPO performance, which may not be fully captured in the study.
5. The accuracy of the study depends on the reliability and availability of the data collected from various sources.
6. Investor behavior and market sentiment are dynamic and difficult to measure precisely, which may affect the conclusions drawn.
7. The study focuses mainly on financial and market performance and may not consider all qualitative factors influencing IPO success.
8. Time and resource constraints may limit the depth of analysis and the number of IPOs included in the study.
9. The findings and recommendations are specific to the selected sample and may not be universally applicable to all companies or industries.
10. Unforeseen market events and external factors can impact IPO performance, making future predictions uncertain.

III. LITERATURE REVIEW

This project focuses on the relatively unexplored area of primary equity markets in India. Its broad goal is to begin the process of understanding how and why primary markets develop.

Primary markets are where the firms raise capital through the issuance of financial securities traded after insurance. The research will examine the development of domestic primary market, focusing on macro economic factors. With the abolition of Control over Capital Issues prior approval of capital issue proposals by companies has been dispensed with. The companies are required now to be fair and honest to the investing public by disclosing all material facts along with the risk factors associated with their projects to the public. The present practice of brochure which is circulated widely to the investors along with application form has been replaced with abridged prospectus to be attached to the New Issue application forms.

The word "market" can have different meanings but it is used most often as a catchall term to denote both primary and secondary market. Infact primary market and secondary market are both distinct terms that refers to the market where securities are created and the one in which they are traded among investors respectively. Knowing the functions of primary and secondary market is the key to understanding how stocks trade. Without them, the stock market would be much harder to navigate and much less profitable. We will help you to understand how these markets work and how they relate to individual investors.

The primary market is that part of capital markets that deals with issuance of new securities. Companies, government or Public sector institutions can obtain funding through the sale of new stock or bond issue. This is typically done through a syndicate of securities dealers . The process of selling new issues to the investors is called Underwriting. In the case of new stock issue, this sale is called an IPO (Initial public offering). Dealers earn a commission that is built into the price of the security, though it can be found in the prospectus.

The market in which investors have the first opportunity to find a newly issued security. After the first purchases, subsequent trading is said to occur in secondary market. The primary market is where securities are created. It is in this market that firms sell (float) new stock and bonds to the public for the first time. For our purposes, you can think of a primary market as being synonymous with an IPO. Simply put, an IPO occurs when a private company sells stocks to the public for the first time.

METHODS OF FLOATING NEW ISSUES:

The various methods which are used in floatation of new securities in the new issue market are

1)Public Issue / Offer through Prospectus
2) Offer for sale
3)Private Placement
4) Right Issues
5) Stock Exchange Pricing
6) Subscription by inside coteries

1) **PUBLIC ISSUES:** This is the most common method followed by joint stock companies to raise capital through the issue of new securities. Under this method, the issuing company directly offers to the general public or institutions a fixed number of shares at a stated price through a document called prospectus.

The purpose of raising the new capital is to finance some capital expenditure, it is usual for companies to issue a prospectus inviting the public to take up the new securities. Legally no public limited company can raise capital from public without issuing prospectus.

2) **OFFER FOR SALE:** Under this method the company sells the shares /securities to the issue house / brokers at an agreed price . The issue house/brokers sell their shares / securities to the investors at a higher price.

The company is relieved from the problem of printing and advertisement of prospectus and making allotment of shares . Offer for sale is not common in India

3) **PRIVATE PLACEMENT**: The promoters sell their shares to their friends , relatives and well wishers to obtain the minimum subscription which is a precondition for issue of shares to the public.

Once this precondition for issue of shares is met , the issue house/brokers buy the securities out right with the intention of placing them with their clients afterwards.

The issue house/brokers maintain their own list of clients and through customer contact sell the securities. The main disadvantage of this method is that the securities are not widely distributed to the large section of investors.

4) **RIGHT ISSUES:** Rights issue is a method of raising funds in the market by an existing

company. A right means an option to buy certain securities at a certain privileged price within a specified period.

Shares so offered to the existing shareholders are called Right shares. Right shares are offered to the existing shareholders in a particular proportion to their existing shareholders. The company should abide with section 81 of the companies act.

If the shareholders fail to take the Right shares within a specified period, the balance is to be equally distributed among applicants for additional shares. Any balance still left over may be disposed off in the market.

5) **STOCK EXCHANGE PLACING:** this method has been discontinued in India due to strict regulations and statutory rules for listing of securities. According to it, "A company used to place its shares privately with the aid of brokers, and then secured permission for dealing on stock exchange". This method involved little cost but often led to concentration of new shares in few hands.
6) **SUBSCRITION BY INSIDE COTERIES:** when a company goes to the new issue market a certain percentage of the capital is kept in reserve for subscription by inside coteries.

IV. FINDINGS:

- The IPO returns are more when comparing with nifty returns .
- HDFC, Rushil Decorand Onelife Capitalhas given highest benefit to the investor.
- Sun TV Ltd has given highest negative benefit to the investor.
- This study reveals IPO given 75% positive result and 25% negative result or benefit to investor.
- Investors more crazy about the new issues or IPO.

V. SUGGESTIONS:

- The returns of IPO's are higher when compare to benchmark portfolio of Nifty. So an investor can invest in IPO's for better returns.
- There is a probability of listing a stock returns in positive is 75% and negative is 25%.
- Investor need to develop a long term investment mindset rather than short term investment to get more returns or for achieving financial goals
- A good investor should diversifies and reduces his risk by investing in different securities which contained different risks and returns in order to achieve his goals
- An easy solution to investor is to invest in to mutual fund schemes through a systematic investment plan (sip) the mutual fund gives you a well diversified, professionally managed portfolio at low cost
- Investor need to aware of new information, which reflects wider changes in share prices.

VI. CONCLUSIONS

- It can be observed that it is safe for the general public to invest in different sectors of primary market in present than in the past because SEBI has been introduced and it controls the operations and working of new issue market
- Primary market returns are very attractive in short period especially on the day of listing. But investors in IPO's should take wise decision in choosing the best company.
- From the overall study it can be concluded that the highest positive difference between Issue price and LTP is Educomp Solutions Ltd. scrip.
- The conclusion from the study is that the highest negative difference between Issue price and LTP is Sun TV Ltd scrip.
- The study reveals that the scrip's of Textiles and Media industries have highest negative difference between LTP and Issue price.
- The study shows that the scrip's of Bank and Power or Energy industries have highest positive difference between LTP and Issue price.

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