

A model of relationship between IPOs activity and GDP growth rate

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Abstract

Primary market activity of an economy depends on various macro factors. Gross Domestic Product Growth is one the most prominent variable. This study is an attempt to frame a model of relationship between IPOs Activity and GDP Growth Rate. To accomplish the objective IPOs activity of Indian Corporate and GDP Growth Rate from 2010-11 to 2015-16 have been taken in to consideration.

Keywords: IPOs, GDP, economy, financial

Introduction

A financial system consists of two major components: the money market and the capital market. Money market is used for mobilization of the funds for short period of time, usually less than one year, while capital market is used to raise the funds for long period of time (More than one year). A corporation intends to raise funds for long term may approach to the capital market and approach to the primary market in

order to originate and trade the securities for very first time. The securities issued in the process are known as Initial Public Offerings. The study is to reveal the trends in the primary market of India. There are three parameters/particular that have been considered for the purpose of study: Public Issues, Initial Public offers and Right Issues. Data of annual amount and no. of the issues in a year has been demonstrated in the table 1.

Table 1: Trends in IPOs Market in India and GDP Growth Rate

Years	Public Issues		Initial Public Offers		Right Issues		GDP Growth Rate: At Constant Prices (%)
	Number	Amount (Cr.)	Number	Amount (Cr.)	Number	Amount (Cr.)	
2010-11	68	58105	53	35559	23	9503	8.91
2011-12	55	46093	54	41515	16	2375	6.69
2012-13	53	23510	33	6528	16	8945	4.47
2013-14	75	51075	38	1236	15	4576	4.9
2014-15	70	12452	46	3311	18	6750	7.2
2015-16	95	48927	74	14815	13	9239	7.6

Source: Annual Report SEBI 2015-16 and CSO.

Table 1 reveals the data of public issues, initial public offers and the right issues for a period of 6 years (2010-2016). As per the data shown in the table 1 the total number of the public issues in the year 2010-11 is 68 and the amount raised from all 68 public offers is 58,108 Rs. In the same year (2010-11) the amount of money raised from 53 IPOs is rupees 35,559 and amount of money raised by the medium of 23 Right issues is 9,503. Growth rate of GDP on constant prices has been 8.91% in the year 2010-11.

Year 2011-12 shows a decline and the down trend in the market, number of the public issues reduced from 68 to 55 and number of the right issues has been decreased from 23 to 16 only. The money raised has been reduced only to 46,093 and 2375 cr. for public issues and the right issues respectively. While there is an increase in the number of IPOs in the same year from 53 to 54 and amount increased to 41,515 to 35,559. Growth rate of GDP has also been decreased from 8.91% to 6.69%, decreased by 2.2%.

Year 2012-13 shows a huge decline in the public issues with respect the funds raised. Amount of money raised in the year 2011-12 was 46,093 but it is only 23,510 in 2012-13. Initial

public offers also shows a decline in the number of issues, from 54 to 33, and in amount of money raised, from 41,515 to 6,528 cr., as well. Mean while right issues has shown a growth from 2375 to 8945 cr. even though the number of the issues has been same 16. Year 2012-13 has not been a good time as GDP again declined by 2.22% along with a huge decrease in the size of Public issues in Indian capital market.

Year 2013-14 shows a growth in the number of the public issues from 53 to 75, a very high growth. Amount of funds raised from the issues has been significantly raised from 23,510 to 51,075 cr., even more than double of the previous year. Size of funding source from IPOs declined from 6,528 cr. to 1,236 cr. but number of the issues increased from 33 to 38. Growth of GDP and the size of public issues are of course related with each other positively. In the year 2013-14 GDP recovered to some extent from 4.47% to 4.9%.

Year 2014-15 has shown a decline in the amount raised from the public issues from 51,075 crore to only 12,452. A decline of 75.62% in the size of funds raised from public issues shattered the primary markets of India. IPOs increased from 38 to 46 and funds raised increased from 1,236 crore to 3,311

crore. The year shows a very high rate of growth for GDP at constant prices. GDP increased from 4.9% to 7.2%. There is an increase in the GDP while a huge decrease in the size of public issues.

Year 2015-16 has been a time of the market recovery for public issues. Number of IPOs 46 to 74 and amount raised increased from 3,311 crore to 14,815 crore. Public issues market raised approximately 290% with respect to the year 2015-16.

Literature Review

The literature related to primary market activity and performance in Indian is as follows:

In the study titled, Indian Capital Market - A Functional Analysis, depicts the primary market as a perennial source of supply of funds. It mobilises the savings from the different sectors of the economy like households, public and private corporate sectors. The number of investors increased from 20 lakhs in 1980 to 150 lakhs in 1990 (7.5 times). In financing of the project costs of the companies with different sources of financing, the contribution of the securities has risen from 35.01% in 1981 to 52.94% in 1989. In the total volume of the securities issued, the contribution of debentures / bonds in recent years has increased significantly from 16.21% to 30.14%.

Evaluated the 'Derivatives' especially the 'futures' as a tool for short-term risk control. He opined that derivatives have become an indispensable tool for finance managers whose prime objective is to manage or reduce the risk inherent in their portfolios. He disclosed that the over-riding feature of 'financial futures' in risk management is that these instruments tend to be most valuable when risk control is needed for a short-term, i.e., for a year or less. They tend to be cheapest and easily available for protecting against or benefiting from short term price. Their low execution costs also make them very suitable for frequent and short term trading to manage risk, more effectively.

Shollapur and Sunagar (2008) [3] considered two case studies: Tech-Mahindra Ltd. and Voltamp Transformer Ltd., both the companies followed 100 percent book-building method for determining the issue price.

Has conducted a study to check underpricing and long run performance of 438 Indian initial public offers listed on BSE during June 1992-March 2001. The mean underpricing has been found to be 99.2 percent. Age of the firm, listing delay at IPO and number of times the issue is subscribed have been found to be the significant determinants of underpricing. Indian IPOs do not tend to underperform in the long-run. Average BHAR after 60 months of listing was 90.13 percent.

Sahoo Seshadev & Prabina Rajib (2010) [4] covered 92 Indian IPOs issued during the period 2002-2006. It is reported that on an average IPOs are underpriced to the tune of 46.55 per cent on the listing day. The average BHAR after 3 years reported 41.91 per cent on offer price.

Study on 227 book-built IPOs for the period of 2004-2009 found that the average underpricing during this period was 28 percent while the maximum underpricing was around 242 per cent.

Kumar Vinod & Dhanda Neelam (2013) [5] cover 488 IPOs offered through BSE during 1993 to 2007; Study proves existence of underpricing in Indian IPO market. Average market adjusted return & wealth relative are used as price

performance indicators. The average market adjusted abnormal return has been reported 82.67 per cent on the listing of IPOs. All the twenty three sectors have shown existence of underpricing with more than one value of wealth relative.

Kumar Vinod, Dhanda Neelam (2013) [6] compared at par (170) & premium (318) IPOs, the degree of underpricing for at par IPOs reported significantly higher as compare to premium IPOs.

Kumar Vinod, Dhanda Neelam (2013) [7] proved through multivariate regression model that level of subscription has significantly positive impact on underpricing of initial public offers on listing day. It has been also reported that offer price and offer size have negative impact on under pricing.

Kumar Vinod, Narang Sahil (2017) [10] proved that Indian IPO market is remained underpriced during period of 2008 to 2013. The study is based on average market adjusted abnormal return of 124 IPOs.

Kumar Vinod, Narang Sahil (2017) [11] further proved that Indian IPO market is remained underpriced during period of 2014 to 2016. An Extensive sample of 49 IPOs has been considered. It is revealed that the underpricing level was 14.63 per cent.

Objectives of the study

The study is conducting to fulfill the following objectives:

- To study the trends in the Primary market: with special reference to Initial Public Offerings (IPOs).
- To study trends in the growth of GDP as constant prices in India;
- To test the relationship between the amount of funding through IPOs and the growth rate of GDP at constant prices in India.
- To help policy makers and investors in framing the policies and rational decisional making.

Period of the Study: The study has been conducted for a period of six years. By taking data the of GDP at constant prices and amount of the funds raised through IPOs.

Population: The data for GDP growth rate and amount of funds raised through IPOs in India has been extracted from various annual reports of Securities Exchange Board of India. The data has been taken from the year 2010-2016 for a period of six years.

Data Collection: The data has been collected from various reports of Securities Exchange Board of India (Official website of SEBI: www.sebi.gov.in), official website of Reserve Bank of India (www.rbi.org.in).

Descriptive Statistics

GDP growth rate and the size of IPO market are the key indicators to know about the health of an economy. A variation in the GDP growth rate of the economy is reflected from the other key indicators in the economy, both micro and macro environment indicators/factors. Descriptive of the both indicators gives a sound knowledge about the characteristic of both variables. Descriptive statistics of GDP at constant prices and size of IPO markets for a period of 6 years has been shown in the table 2.

Table 2: Descriptive Statistics

	N	Range	Minimum	Maximum	Sum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
IPO AMT.	6	40279.00*	1236.00 *	41515.00*	102964.00*	17160.66*	7060.68*	17295.06*	299119249.86*
GDP GROWTH	6	4.44**	4.47**	8.91**		6.62**	.68**	1.68**	2.82**
Valid N (listwise)	6								

*Data in crore rupees;
 **Data in percentage terms;
 Data is compiled through SPSS.

Table 2 is the table of descriptive statistics for GDP at constant prices and amount of funds raised from IPOs in India during the period of 2010-2016. The table describes the following characteristics of the variables: range, minimum values of growth and funds raised, total amount of the funds raised during the period of six years, average amount of funds raised, average GDP growth rate, standard deviation and variance of both of the variables.

Minimum amount of the funds raised through IPOs in any year has been 1,236.00 cr. and maximum amount of funds raised in any year during the period of study has been rupees 41,515.00 crore. Total amount of the funds raised during the period of study (6 Years) has been Rs. 1, 02, 964 crore. Average amount of the funds raised from the IPOs during the period of 6 years of the study is 17,160.66 crore rupees with a standard error of 7060.68 crore rupees. IPOs data has shown a high variation in the pattern: standard deviation of the data is 17,295 crore rupees and variance is 29, 91, 19, 249.86 crore shows a high level of the variations in the patterns of the funds raised from IPOs in India.

Minimum rate of GDP growth has been 4.44% during any year and maximum rate of GDP growth rate has been 8.91%. There is a high medium degree of variations in the data of growth of GDP: as the standard deviation of the GDP growth rate is 2.825%.

Hypothesis Testing

Null Hypothesis (H0): There is a no significant relationship between Size of funds raised from Initial Public Offers and growth rate of GDP in India.

Alternate Hypothesis (H1): There is a significant relationship between the size of funds raised from Initial Public Offers and growth rate of GDP in India.

The relationship between the two variables: Gross Domestic Product at constant prices and Size of IPO market has been measured tested using Karl Pearson’s Coefficient of Correlation. The results of the tool have been shown in the table 3.

Analysis & Results

Growth of GDP is one of the most prominent indicators to test an economy’s health and size of funds raised through IPOs indicates the health of Primary market of an economy. It is very important to study that: Whether there is a relationship between the two economic indicators or not. Study of the relationship between the factors will help the policy makers in framing the policies for economy and in decision making as well. The will be helpful for the investors as well in construction of their investment portfolios and the investment policies as well. Results of the correlations test has been shown in the table 3 which has been shown as under:

Table 3: Correlation between amount of Funds Raised from IPOs and GDP Growth Rate

		IPO Amt.	GDP Growth
IPO AMT.	Pearson Correlation	1	.576
	Sig. (2-tailed)		.231
	Sum of Squares and Cross-products	1495596249.333	83756.087
	Covariance	299119249.867	16751.217
	N	6	6
GDP growth	Pearson Correlation	.576	1
	Sig. (2-tailed)	.231	
	Sum of Squares and Cross-products	83756.087	14.126
	Covariance	16751.217	2.825
	N	6	6

Table compiled through SPSS.

Table 3 shows the relationship between the two major health indicators of the Indian economy: the Growth Rate of GDP and Amount of Funds Raised through Initial Public Offers in Indian Capital Market. As per the results shown in the table 3, it can be concluded that there is no significant relationship between the growth rate of GDP of India and amount of the funds raised through IPOs. Therefore the null hypothesis has been accepted.

Conclusion

A sound capital market is the necessity for the sustainable development of GDP of any economy. Therefore it is very important to find out the extent of relationship between the GDP and growth of capital market in any economy. It has been found that there is no significant relationship between the growth rate of GDP and the amount of funds raised through

Initial Public Offerings in India during the period of 2010-16. The trends shows a high degree of variability in the amount of funds raised through IPOs in India and it has been found that GDP growth rate is no significantly linked with the growth of IPOs financing in India.

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