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Review of IPOs in India between 1999 to 2015

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Abstract
Existing literature on IPOs emphasis that the market sees the presence of IPOs as an element that creates competition among the existing firms within an industry. The prevailing market sentiment, investor's expectation and stock performance has been studied, especially during hot IPOs markets (Ritter, 1991; Loughran and Ritter, 1995; Purnanandam and Swaminathan, 2004). The competition among the inter and intra firms may also be influenced by the investor's expectation toward the IPOs forecast and underestimation about competitive positions of the existing firms within an industry. The above scenario can be due to the disagreement of managers of the existing firms, with the markets poor assessment of their firm's competitive positions relative to the IPO firms.
The use of IPOs across various industry as a proxy for the hot IPOs market, we find evidence that among 64 industries which was studied from 1999-00 to 2014-15, Banking was the only industry which raised 5% or more than 5% of IPO total amount volume (capital mobilization) per annum for eleven years in a study of sixteen years, followed with Information Technology raising 5% or more than 5% of total IPO amount volume per annum for six years. This shows that few industries contribute for the IPOs boom in the market while other industries just follow the trend sit by the leaders during that particular phase.

Keywords: ipo, indian ipos, ipo returns, industry wise ipos, ipo activity

1. Introduction
Existing research has shown that announcements pertaining to few types of firms and the overall outlook of markets affect IPOs performance of an industry. In particular, previous studies have provided evidence of both positive and negative effects on industry performance following announcement of certain corporate events which among others include: stock repurchases, earnings announcements, dividend payments, mergers, and IPOs announcement.
It is perceived that the response to bad news is more intense from investors than to good news, and sometimes they are either too optimistic or too pessimistic (Hong, Lim and Stein, 1998; Veronesi, 1999) [40-41]. The study shows that few industries contribute for the IPOs boom in the market while other industries just follow the trend sit by the leaders during that particular phase.
Ritter (1991) [42] research relating to foreign markets suggests that variables such as the business / industry that the issuing company is engaged in, the age of the issuing firm and pricing of the issue in relation to the book value (Ritter 2003) [43] can also reason outcomes which among others include efficiency of pricing in the IPO market or the long run performance of IPOs.
However, the research pertaining to India IPO market has not been analyzed along the above mentioned variables. This can be due to the lack of information about all the variables required on public domain and the information which is available is most often used to study the possible relationship between various attributes of the issuer and the market outcome in terms short or long run performance of the issuer and underpricing of IPOs.
The scenario of Indian IPO market is pertinently influenced by its regulator the Securities and Exchange Board of India (SEBI). SEBI established in 1991 has modified regulations and introduced new ones to promote healthy development of securities market in India (Shah (1999), Shah Ajay and Thomas (2002) [44-45], and Goyal (2005) [46]. SEBI clearly specified certain requirements which must be met by the companies seeking listing for first time which among others includes: Composition of Board, Audit Committee, Investor Committee, Subsidiary Company, report on corporate governance, and CEO/CFO certification.
This paper tries to examine whether there is a relationship between the various industries development, institutional developments and the outcomes in the IPO market. However, the precise cause effect link between the regulatory actions of SEBI and the IPO market performance is not easy to study, as other variables might also be able to have affected the market outcomes (Gokarn (1996) [18]. Therefore, we develop some observations which could then become the basis of further research.
The present study along with subsequent work on above mentioned elements can potentially inform policy relating to market structure and its regulatory frame work in future. The paper is organized as follows. Section 2 deals with the data and the methodology. Section 3 analyses IPO activity in the primary market Section 4 analyses IPO activity at industry level, while Section 5 concludes.

2. Data and methodology
The analysis is done as follows. We have taken some key information relating to IPOs that is available from Prime Database (hereafter, Prime). In our analysis we included all the instruments which are used by a company to raise its Equity. The options for raising funds from the market in India can be broadly classified into three headings: Debt, Equity and

Hybrid. Companies which are in the lookout for debts either approach banks or financial institutions or they opt for public issue of bonds or debentures. When the companies are interested to raise equity they use IPO, FPO, Rights issue and Preference issue. However, when it comes for Hybrid funding various forms of Convertibles can be opted.

Moreover, to maintain uniformity and clarity in analysis certain data has been removed such as when data relating to industry was not readily available. The data where the variable data appeared to be inconsistent with our research understanding of market trends or practices has also been removed. The resulting input files comprise IPOs of equity shares offered at one offer price and specified in Prime. Our period of analysis starts from 1999-2000 to 2014-2015 (year ending on 31st March).

3. Analyses of IPO activity

The summary of statistics relating to the number and volume of IPOs is provided in Table I. The number and volume of IPOs was 56 and 297471.3 (rupees in lakhs) in the year 1999-2000.However, in the year 2001-2002 and 2002-2003 the no and volume of IPOs recorded a decrease to 6 issues and Rs. 108205.34 and Rs. 103868.37(rupees in lakhs) respectively. In the year 2003-2004, the activity level increased to 27 with recording an amount of 1774703.95 (rupees in lakhs).

The activity level was at its peak at 101 in terms of number of issues in 2005-2006 and recorded an amount of Rs.2368237.78 (rupees in lakhs). However, the market recorded decrease in IPO issues with 89 issues in 2006-2007 and 2007-2008 respectively. Further, the number of issues decreased to 22 in the year 2008-2009, and the amount of IPO volume decreased to Rs.209024.1 (rupees in lakhs). The drastic decline in terms of both volume and amount can be attributed to the global financial crisis which almost wiped-out two-third value of entire securities market value across the globe.

However, the market recovered in the year 2009-2010 with an increase in IPO issue numbers to 44 and were able to raise an issue amount of Rs.4694128.94(rupees in lakhs), although it was still low in comparison to the earlier year 2007-2008.

In 2012-13, 2013-14 and 2014-2015, the decline in the number of issues was even more considerable. The IPO issue number decreased to 9, 3, and 8 respectively while the gross issue amount decreased to Rs.628928.39, Rs.837510.4 and Rs.276971.63 (rupees in lakhs).

The trend in the average size of IPOs gross issue amount across the study period points to the fundamental shift in the Indian primary market. The first point of observation is decrease in the number of IPO issues but increase in the gross issue amount. This means that the Indian firms' requirement for capital has increased in size and scales and thus forcing those companies to come up the larger issues. The second point to be noticed is the participation of larger institutional investors in the market. This can be the result of various reforms and regulations introduced by SEBI, which encouraged big institutions to participate in the market as they have large financial resources to back the issues. The final reason behind the inverse relationship between number of issues and the gross amount raised in the market can be related to the increase in the cost of opting for IPOs. Due to new norms and disclosure regulations the fixed costs of public offering increased discouraging smaller companies to opt for IPOs.

In order to better understand the patterns in the issuance activity and the issuer variable (Age of the firm) we have classified IPOs in terms of the number of times issue subscribed and the age of the issuer. There is no relationship between the issuer age and number of times an IPO is subscribed. This again negates the popular opinion that the longer the firm is in existence, the chances of success of that firm is higher in security market. This can be attributed to three main observations: 1. Increased awareness among investors, which helps them in making information based judgment regarding an issue.2.Increased competition within the firms and 3. Technical up gradation among the firms. If a firm is unable to adopt itself to the latest technology, it does not have a chance to stand among its competitors. The summary of statistics relating to the age of the firm and the number of times issue subscribed is provided in Table – II.

The Table II shows that almost all the firms which recorded above 100 times subscription rate belong to Information Technology Industry. This shows that the investors are willing to take risk while investing in this industry rather than investing in safe havens and receiving normal returns. Indus Networks Ltd with 3 years of existence at the time of issue has recorded 173.75 subscription rate while Mundra Port & Special Economic Zone Ltd., recorded 115.02 subscription rate. The youngest firm with an age of 2years at the time of subscription Future Capital Holdings Ltd recorded a subscription rate of 131.21 times.

4. Analyses of IPO activity at industry level

For our research analysis we took industry classification of each company as specified in Prime. In all, the companies were classified into 64 categories during the study period of 1999-2000 to 2014-2015.

The study of Industry-wise contribution to IPOs per annum was calculated using the volume of capital raised by the industry during that year and then converting that into percentage for better analyses. All the industries with were able to mobilize capital was considered. However, to keep the data simple and easy to understand only those industries which were able to mobilize either 5% or more than 5% of capital during that particular year has been presented in table form (Table III).

Among the sixty four industry categories only twenty four industries recorded an IPO capital mobilization of 5% or more than 5% per annum during the period of study. The summary of statistics relating to the IPO activity at industry level is provided in Table – III.

The following are the important observations from the industry-wise contribution in capital mobilization.

1. Only twenty four industries made an entry in the table out of sixty four industry classification. of the twenty four industries which made an entry in the table, only one industry 'Banking / Term Lending' recorded an double digit entry (11) i.e., total number of times the industry was able to contribute 5% or more than 5% in capital mobilization.
2. Power Generation and Supply and Information Technology are in second and third place with 8 and 6 years respectively. While Telecommunications was able to mobilize 5% or more than 5% of capital for 4 years.
3. Electronics-Consumer & Media, Housing/Civil Construction Real Estate, Mining / Minerals, and Oil Exploration / Drilling / Refining industries were able to mobilize 5% or more than 5% of capital for 3 years.

4. Petrochemicals and Pharmaceuticals & Drugs were able to mobilize 5% or more than 5% of capital for 2 years.
5. The industries Travel / Transportation / Courier (Passenger / Cargo), Textiles, and Financial services also recorded 5% or more than 5% of capital for 2 years. However, these industries were able to mobilize capital in the latter years of the study.
6. Industries such as Amusement Parks/Recreation, Automobiles -4 Wheelers & Tractors, Chemicals, Diamond Cutting & Jewellery, Gases & Fuels, Glass & Allied Products, Packaging-Plastic, Project Contracting / Machinery Manufacture, Roads & Highways, Solvent Extraction / Vanaspati / Edible Oils, and Steel / Sponge Iron/PIG Iron were able to just make their entry into the capital mobilisers once in a study of 16 years.

Moreover, during the latter years of study, only Power Generation & Supply and Information Technology were present from the traditional segment while Amusement Parks/Recreation, Chemicals, Electronics-Consumer & Media, Project Contracting/Machinery Manufacture, Textiles, and Travel / Transportation / Courier (Passenger/Cargo) made their presence felt. This may lead to new industries dominating IPO market in the coming years and the decrease in the importance of public sectors.

5. Conclusion

The analysis shows that there are few changes in the features of the companies that entered the IPO market during the period 1999-2000 to 2014-2015.This is important because IPOs are one of the important ways to raise capital by the companies to meet their financial needs. The variables which were studies includes but are not exclusive are Issue Number, Issue Size, Post Issue Paid Capital, Times Subscribed, Firm Age and Industry to which the issuer belongs.

It can be concluded from the present analysis that the IPO market has been registering fewer issues while compared with the initial years of the study but the issue size has increased drastically. The study of Firm age variable has shown that there is no relationship between the age of the firm and its IPO subscription times. Thus, proving that any company which has a sound business plan and good execution team can raise its capital from security market. In the last year of the study i.e., 2014-2015 we noticed a new entry in industry 'Amusement park/Recreation' which was able to mobilize capital of 5% or more than 5% of the capital raised in that year.

Table 1: IPO Number and Volume

Year	No. of Issues	Gross Issue Amount (Rs. In lakhs)	Mean
1999-2000	56	297471.3	5311.99
2000-2001	109	237967.2	2183.19
2001-2002	6	108205.34	18034.22
2002-2003	6	103868.37	17311.40
2003-2004	27	1774703.95	65729.78
2004-2005	27	2112133.03	78227.15
2005-2006	101	2368237.78	23447.90
2006-2007	89	2535700.42	28491.02
2007-2008	89	5216274.77	58609.83
2008-2009	22	209024.1	9501.10
2009-2010	44	4694128.94	106684.75
2010-2011	57	4618165.47	81020.45
2011-2012	34	1046386.26	30776.07
2012-2013	9	628928.39	69880.93
2013-2014	3	837510.4	279170.13
2014-2015	8	276971.63	34621.45
Total	687	27065677.35	

Compiled by the authors using data sets from Prime Data

Table 2: IPOs Subscribed More than 100 times

Company	Times Subscribed	Age of the Firm
Indus Networks Ltd.	173.75	3
Geometric Software Solutions Co. Ltd.	105.26	5
Pentagon Global Solutions Ltd.	143.70	4
Cinevista Communications Ltd.	114.84	6
AvantelSoftech Ltd.	102.40	9
Infobahn Technologies Ltd.	114.12	4
SankhyaInfotech Ltd.	283.50	14
Fcs Software Solutions Ltd.	175.88	12
Ruchira Papers Ltd.	113.82	11
Broadcast Initiatives Ltd.	102.43	7
Everonn Systems India Ltd.	143.99	7
Religare Enterprises Ltd.	158.63	23
Mundra Port & Special Economic Zone Ltd.	115.02	51
Edelweiss Capital Ltd.	110.06	12
Bgr Energy Systems Ltd.	114.78	22
Future Capital Holdings Ltd.	131.21	2

Compiled by the authors using data sets from Prime Data

Table 3: Industry Wise Performance of IPOs

Industries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
AGROCHEMICALS/PESTICIDES																
AMUSEMENT PARKS/RECREATION																*
AUTOMOBILE COMPONENTS																
AUTOMOBILES- 4 WHEELERS & TRACTORS					*											
BANKING/TERM LENDING	*	*	*	*	*	*	*	*	*		*		*			
BATTERIES																
BREWERIES & DISTILLERIES																
CABLES/WIRES/CONDUCTORS																
CASTINGS/ FORGINGS																
CEMENT & CONSTRUCTION MATERIALS																
CERAMICS/MARBLE/GRANITE/SANITARYWARE																
CHEMICALS																*
DIAMOND CUTTING & JEWELLERY														*		
DIVERSIFIED																
DYES & PIGMENTS																
ELECTRIC/ ELECTRONICS EQUIPMENT																
ELECTRONICS-CONSUMER & MEDIA		*						*								*
ELECTRONICS-GENERAL																
ENGINEERING																
FERRO ALLOYS																
FERROUS METALS																
FINANCIAL SERVICES													*	*		
FLORICULTURE/ TISSUE CULTURE/ BIOTECH/ AGRICULTURE																
FOOD & FOOD PROCESSING																
GASES & FUELS					*											
GLASS & ALLIED PRODUCTS										*						
HOSPITALS/DIAGNOSTIC SERVICES																
HOTELS & RESORTS																
HOUSING/ CIVIL CONSTRUCTION/ REAL ESTATE								*	*			*				
INFORMATION TECHNOLOGY	*	*		*		*		*							*	
LAMINATES/DECORATIVES																
LEATHER/ SYNTHETIC FOOTWEAR & PRODUCTS																
LUBRICANTS & OILS																
MACHINE TOOLS																
MATERIAL HANDLING EQUIPMENT																
MEDICAL EQUIPMENT/SUPPLIES/ACCESSORIES																
MINING/MINERALS										*	*	*				
MISC.																
NON FERROUS METALS																
OIL EXPLORATION/DRILLING/REFINING					*			*			*					
PACKAGING-METALLIC																
PACKAGING-PLASTIC	*															
PAPER & BOARD																
PERSONAL CARE																
PETROCHEMICALS			*		*											
PHARMACEUTICALS & DRUGS	*									*						
PLASTICS																
POWER GENERATION & SUPPLY						*	*		*	*	*	*			*	*
PRINTING																
PROJECT CONTRACTING/ MACHINERY MANUFACTURE															*	
PUBLISHING																
ROADS & HIGHWAYS												*				
RUBBER & RUBBER PRODUCTS																
SHIPPING (INCL REPAIRING/ BREAKING)																
SOLVENT EXTRACTION/VANASPATI/EDIBLE OILS										*						
STEEL TUBES/PIPES/WIRES																
STEEL/SPONGE IRON/PIG IRON												*				
SUGAR																
TEA/ COFFEE																
TELECOMMUNICATIONS		*	*					*						*		
TEXTILES										*						*
TRADING(INCL.EXPORTS)																
TRAVEL/TRANSPORTATION/COURIER(PASSENGER/CARGO)						*										*
WATER RESOURCES																
WOOD & WOOD PRODUCTS																

Compiled by the authors using data sets from Prime Data

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