Vol II Issue II Dec 2012I ISSN No : 2249-894X

Monthly Multidisciplinary Research Journal

Review Of Research Journal

Welcome to Review Of Research

RNI MAHMUL/2011/38595 **ISSN No.2249-894X**

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Advisory Board

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.isrj.net

Review Of Research
Vol.2, Issue.3, Dec. 2012
ISSN:-2249-894X
Available online at www.reviewofresearch.net

ORIGINAL ARTICLE

"A STUDY OF INDIAN INVESTORS INVESTMENT PATTERN WITH RESPECT TO INITIAL PUBLIC OFFERING IN INDIA."

MADHAVI DHOLE

Faculty,Finance , Navi mumbai,Maharashtra

Abstract:

Indian stock market has essentially three categories of participants, the issuer of securities the investors in the securities and the intermediaries. The issuers are the borrowers, who issue securities to raise funds. The investors, who are surplus savers, deploy their savings by subscribing to these securities. Initial Public Offering is a type of public offering where shares of company sold to the general public first time though stock exchange. Indian investors generally follow traditional ways of investment. Returns on investment from such traditional avenues are less as compared to stock mark investment.Intial public Offering gives good return to the investor.

INTRODUCTION

Economic development of a nation is depends on the performance of the financial process and capital formulation of the nation. Efficient financial system will automatically formulate required capital for investment. Indian stock market has essentially three categories of participants, the issuer of securities the investors in the securities and the intermediaries. The issuers are the borrowers, who issue securities to raise funds. The investors, who are surplus savers, deploy their savings by subscribing to these securities. The intermediaries' are the agents who match the needs of users and suppliers of funds for a commission. These intermediaries perform functions to help both the issuers and investors to achieve their respective goals. There is large variety and number of intermediaries providing various services in the Indian securities market. The process of mobilizations of resources is carried out under the supervision and overview of the regulators. The regulators develop fair market practices and regulate the conduct of issuers of securities and the intermediaries. They are also in charge of protecting the interests of the investors. The regulator ensures a high service standard from the intermediaries.

LITERATURE REVIEW:

examined the after-market price performance for initial public offerings issued during the period 2002-2006.They have presented fresh evidence on IPO performance anomaly, i.e., initial day under price and long-run underperformance for a broad set of 92 Indian IPOs. , studied the under pricing of equity IPOs by the firms that have made prior public debt offer known as subsequent IPOs(SIPOs) and made comparision between both. Thier study found that subsequent IPOs are associated with significantly lower under pricing. reviewed the relationships among pre-market, primary-market, and secondary-market characteristics. Utilizing agency and signaling theories, they developed a model describing these relationships. Study suggest that certain pre-market predictors did influence . attempts to examine the distribution of risk and return of the Indian stock market. It brings out the time interval as the significant factor in adjusting the stock prices with regard to market and non-market events. Risk and return relationship seems inconsistent in case of daily and weekly returns. Investors will not earn high returns by investing correspondingly in high risk portfolios.

Title:"A STUDY OF INDIAN INVESTORS INVESTMENT PATTERN WITH RESPECT TO INITIAL PUBLIC OFFERING IN INDIA." Source: Review of Research [2249-894X] MADHAVI DHOLE yr:2012 vol:2 iss:3

stated that there are fundamental differences between IPOs of companies in new industries and those in established industries in that there is greater uncertainty regarding future earnings, less competition and fewer barriers to entry. The results indicate that IPOs in new industries outperform IPOs in established industries during holding periods of one to ten years. Specifically, that the first few firms in an industry are likely to be of higher quality than the latter firms entering the industry. studied different aspects and model of IPOs. Enterprenuers care more about change in their wealth rather the level of wealth.

(Lougharn and Ritter2002) proposes prospect theory explanation for puzzling investors behavior.It predicts that in most IPOs the wealth loss from initial under pricing will be less than the gain on the shares retained by pre issue shareholders.(Miller and Reiley 1987) examine adjustment to mispricing and explore the relationship of under pricing to uncertainty.Both underpriced and overpriced issues are studied. Their result suggest that market adjusts to any mispricing during the first day of public trading and that excess returns are not available thereafter. empirically investigates whether executive compensation has any impact on the IPO pricing. Study implies that executive compensation should be somehow related to the under pricing although this relationship may not exhibit itself in every aspect of compensation. Further research, with a large IPO sample and longer time series, are needed to shed further light on the connection between the IPO pricing and executive compensation. For purposes of this study , aftermarket price is defined as the closing price at the end of the first day that IPO Company's stock trades in the secondary market.

Attempts to investigate the difference in performance of issues that raised money in the IPO market through fixed price offer and book building route. An attempt has been made to compare the persistence of the underperformance between these two routes of IPOs. A majority of the IPOs were restricted to the sectors of IT, Media and Banking which probably augurs well in favor of the industry specific wave theory. There was a clear preference of media issuers to go in for fixed price and banking issuers to go in for the book building route, the rationale for this behavior is quite unclear. Certain boom sectors such as IT did exhibit a good after issue performance whereas the sectors such as media performed below the market average. The results of the study seem to suggest that irrespective of the issue method followed, the average and the short run returns do not differ significantly, the study does not address the reason behind this behavior and also the persistence of systemic difference in the long run performances.

Analysed the phenomenon of the under pricing of IPOs and its main determinants for the ASE (Athense Stock Exchange), having as groundwork the classification of the relative theories of under pricing. A large number of studies on the performance of IPOs suggest that under pricing exists in every stock market and also that on average investors purchasing IPOs at the launch price earn abnormal returns at the end of the first trading day. This studies helps investors and issuers to understand the role of an underwriter's reputation into the Greek going public process and the under pricing phenomenon and supports that the oversubscription is a pure signal to the investors that the shares are underpriced

Demonstrates that the degree of under pricing in the Indian stock markets has reduced over the years, which is good for the firms getting listed, as under pricing is an indirect cost to the firm. The after-market in India regards the final offer price, which has been set after book building, as a credible signal for the firm's under pricing. Also finds that the gains from IPOs get diffused within one month of the listing of the firms, and on an average the gains in one month after listing are lesser than those of the market. The study does not taken into consideration the allocation pattern between the retail and institutional investors, which drives the degree of under pricing. Such a study can be taken up in the future. The flipping behavior of retail and institutional investors can be studied so as to determine the extent to which the money left on the table is picked up by these investors. These are areas of possible future research.

Analyzes the impact of firms' IPOs on their performance. The study investigated the changes in the performance of Indian public firms post their IPOs and their relationship, if any, with the changes in the levels of insiders' ownership at the time of their IPOs. The pre-IPO performance of Indian public firms was compared to their post-IPO performance.

Studied the level of customer's satisfaction about various services provided by the share broking institutions and to study the investment preference of the investors. Service quality is a concept that has aroused considerable interest in the share broking institutions in both defining it and measuring it. . A few aspects of the major developments in the India's stock markets are : Corporate memberships, product offerings, Greater reliance on research, Accessing equity capital markets, Specialised services/niche broking, Online broking, Compliance oriented, Focus on training and skill sets, From owners to traders, Fragmentation, Capital Adequacy, Global Opportunities, Opportunities from regional finance, Product Dynamics, Competition from foreign firms, Investor Protection, Customer retention, Wealth maximization, Customer satisfaction, Services quality, and Speed.

Examined the return on listing of an initial public offering varies across time and across markets. In general ,the greater the information asymmetry between participants in the market, and the greater the ex-ante uncertainty in the market, the higher the return on listing. The Indian IPO market has high measures of uncertainty and asymmetry, in part because of the large number of listings, but also because of allotments, which provide incentives to small investors to over-diversify. The uncertainty prior to listing is exemplified by the activity of the unofficial premium market and their dependence on investment publications' ratings.

OBJECTIVE OF STUDY:

To understand the Benefits to investor from IPOs or dealing in secondary market.
To study the investor's preferences for a particular IPO to invest or their awareness.

LIMITATIONS OF THIS STUDY:

Investors was biased sometimes it's not an easy for a researcher to make a productive decisions on the basis of sample survey .Time and cost constraints, which are beyond the human limitation, have also a barrier on the study. It's not possible thing to include all the peoples in research because market conditions are not stable they are changing time to time and affects the investors preferences.

Some time it happened that the information given by the investor not right and that affects the research study. This paper is based on secondary data so all the limitations of secondary data applies to the study.

RESEARCH METHODOLOGY

Research Methodology is a way to solve the problem scientifically and systematically. It includes not only the Research Methods but also the comparison of the logic behind the method we use in the context of our research study and explain why we are using a particular method and why not others.

METHODS OF DATA COLLECTION:

v Secondary Data: These are taken by existing literatures, magazines and govt. periodicals.

Research Design: Research design is a conceptual structure within which research is conducted. It constitutes the blueprint for collection, measurement and analysis of data.

India enjoyed a major boom of IPO's in mid 1990's. This hot period comes to an end in 1995-56 with a fall in stock market and downstream in the economy. Investors who subscribed at the time of boom suffered losses and the primary market comes into the stable condition in last 1990's. It was because of the Software's Companies who done well in the global competition and stock market recognizes these new economy stocks with high valuations.

There are 22 Stock Exchanges in India and the first being the Bombay Stock Exchange, which began formal trading in 1875 and being the oldest one in the Asia. The first exchange to be based on an open electronic limit order book was the National Stock Exchange (NSE) which started trading debt instruments in June 1994 and equity in November 1994. Currently there are 17 India's Stock Exchanges who have adopted open electronic limit order

INVESTORS PROFILE

The investors profile includes information relating to the average number of family members, their monthly income, and number of family members and earning members, investment preference and investment amount.

INVESTMENT PREFERENCE

There is a wide verity of investment opportunities available to the investors while they like to invest. The investment options considered for the research is Bank, Gold, Mutual, Fund, Small savings, Share market, Real Estate, Insurance, Commodity Market, Currency Market, Others (others include EPF schemes, Government bonds, and all other kind of investments).

Hypothesis 1: The issues which are finally priced towards the higher end of the offer price band would be under-priced more as compared to issues which are finally priced towards the lower end of the price band.
The degree of under-pricing is a function of the popularity of the IPO in the market. In a book building scenario, in consonance with Benveniste and Spindt (1989), the investment banker fixes an offer price based on the market demand. If there is good demand in the market for an issue, then the merchant banker fixes an offer price which is on the higher side of the price band available for bidding. On the contrary, if there is low demand for an issue, then the offer price would be fixed at the lower end of the band. The fixation of the price at the higher end of the band is likely to send a signal to the market about good demand for the issue and is likely to result in a higher listing price as well as trading price on the opening day of the listing of the stock. Cornelli and Goldreich (2001) have shown that in many book built issues the demand may far exceed supply so the price cannot be arrived at by the intersection of the demand and supply curves. In fact the price may be fixed at a point where the demand curve shows the steepest descent. Thus the oversubscription of an issue may not be a credible signal of the likely under-pricing of the issue but the price fixation by the under writer in the manner mentioned above could be such a signal. Since there is a time period of more than two weeks between the fixation of final price and the commencement of trading hence in this period the various market players can form opinions about their strategy on the day of listing. There could also be out of the market trades agreed between some players as mentioned earlier.

Hypothesis 2: The greater the listing delay for a firm, the lower would be the degree of under pricing.

Unlike the US stock markets, the Indian stock markets have a delay of about three weeks from the date of closure of the issue to the date of listing. The degree of under-pricing is hypothesized to be a function of this listing delay. If a firm takes too long in getting listed after the period of book building is over then the market revises its expectations about the firm. The market speculates that a big delay in the listing of the firm means that the firm has not been able to get clearances of its projects from the various regulatory authorities and consequently the firm may face a lower degree of under-pricing or it may face over pricing on the day of listing. On the other hand, investors who face illiquidity because of the long delay in listing could demand more premiums in the first day of listing and may take positions likewise in the market, (Shah, 1995). Moreover there is a possibility of greater number of out of the market trades being agreed to if there is substantial gap between setting the final offer price and the trading day. Thus whether the delay in listing would positively or negatively affect the degree of under-pricing is a-priori not very clear.

INDIAN CAPITAL MARKET:

The Indian Capital Market has performed well in 2007. It has raised US $8.3 billion through 95 Initial Public Offers (IPO's). According to Earnest and Young Report ―Globalization-Global IPO Trend Report 2007 ‖ India was the fifth largest market in the world in terms of the number of IPO's and the seventh largest in terms of the proceeds for the year. It was the real estate sector who took the maximum advantage of the bullish stock market trends in 2007 and realty firms picked up 42.7% of their capital through IPO's.

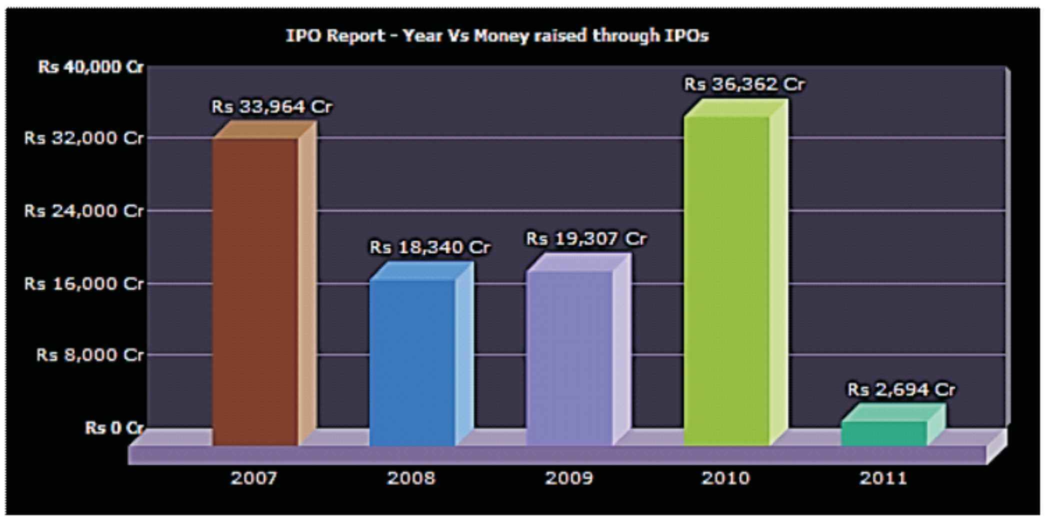
During current decade there have been remarkable reforms in the India Economic scenario. Consequently NIM has made enormous progress in recent years, moving away from fixed- price offering to price discovery through a screen-based auction for IPO's. This has reflected a quest to discover the price through an open fair, competitive auction, which is done in a fully transparent way, where all investors participate in an equal setting, and the investment bankers' or other influences do not vitiate the allocation of shares. The increase in fund mobilization from NIM in India has been exceptionally well. The rise in fund mobilized from Rs. 14042 crore in 1991-92 to Rs. 114577 crore is not a small achievement from any standard. Though some time unfair trade practices, IPO scam and political and economic instability has deteriorated the faith of retail investor in primary market. Now they need strong IPO analysis before investing their hard earned money.

GROWTH PATTERN OF NEW ISSUE MARKET (NIM):

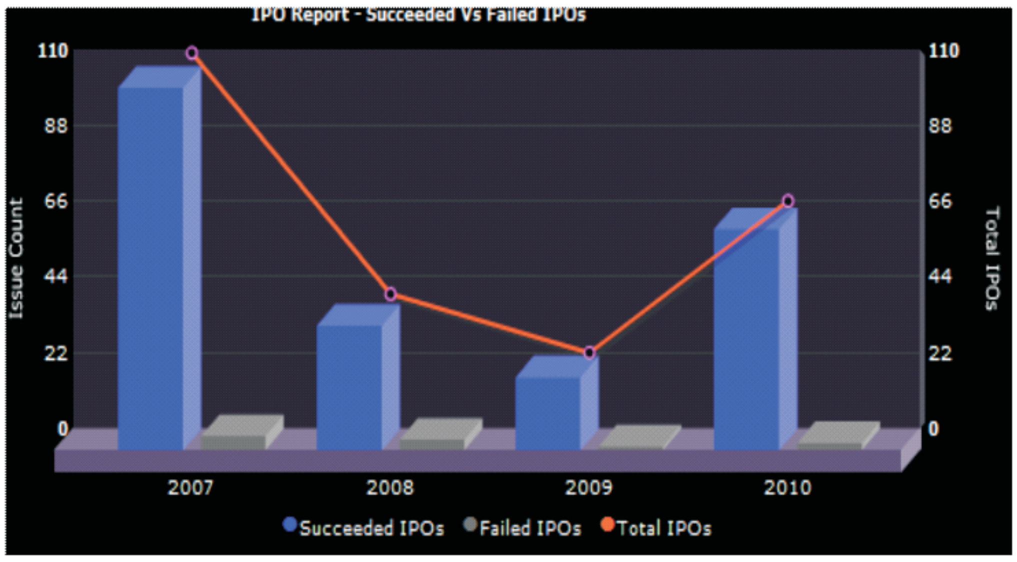
The Indian Economy has been working under the New Economic Policy Since 1991, the introduction of Liberalization, Privatization and Globalization policies has resulted in tremendous economic growth generally adhering to 8% on an average in current decade (since 1999-00). The NIM has also registered the remarkable achievement in its credit in India. The capital raised from capital market was Rs.679.9 billion in 1999-00, has gone up to Rs.1145.8 billion in 2006-07, this is not a small fund which has been garnered through this segment of capital market.

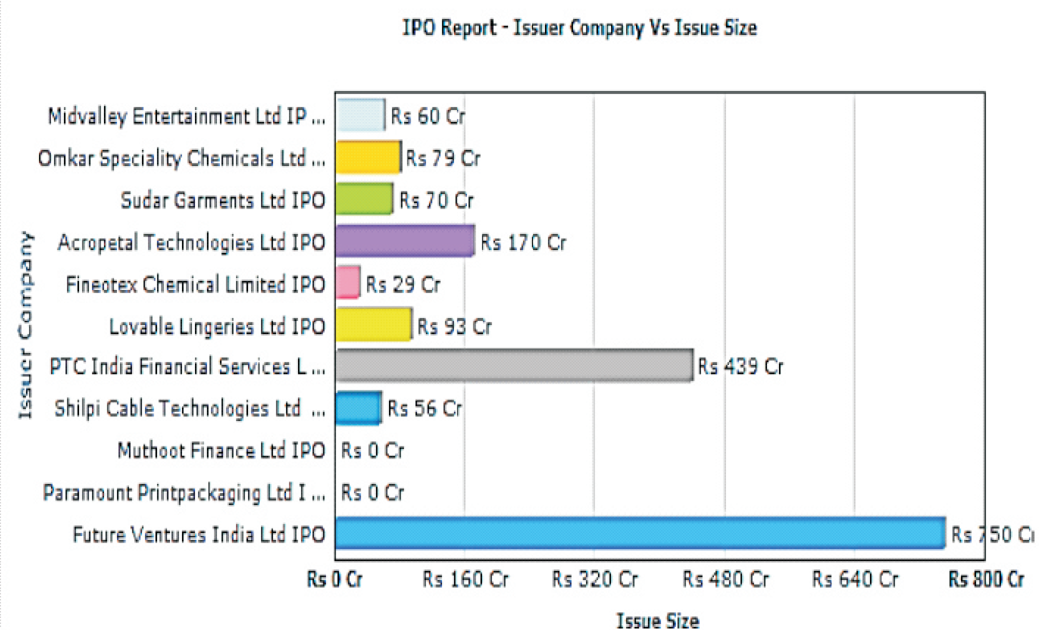
Figure shows the NIM in India: Year	No. of IPOs	Amount Raised (In Rs Crore)	Issue Succeeded	Issue Failed
2007	109	33,964.24	105	4
2008	39	18,339.92	36	3
2009	22	19,306.58	21	1
2010	66	36,362.18	64	2
2011	11	2,693.83	11	0

Financial Year Vs Money Raised through IPO's



Financial Year Wise - Succeeded Vs Failed IPO's



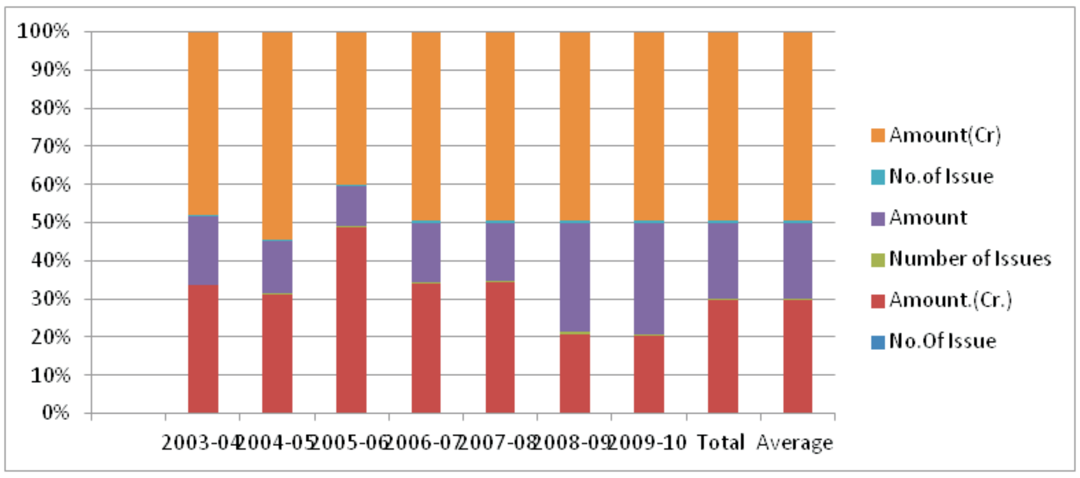


ISSUE SIZE

Issuer Company	Issue Open	Issue Close	Issue Price (Rs.)	Issue Type	Issue Size (Crore Rs.)
Midvalley Entertainment Ltd IPO	Jan 10, 2011	Jan 12, 2011	70.00	BB	60.00
Omkar Speciality Chemicals Ltd IPO	Jan 24, 2011	Jan 27, 2011	98.00	BB	79.38
Sudar Garments Ltd IPO	Feb 21, 2011	Feb 24, 2011	77.00	BB	69.98
Acropetal Technologies Ltd IPO	Feb 21, 2011	Feb 24, 2011	90.00	BB	170.00
Fineotex Chemical Limited IPO	Feb 23, 2011	Feb 25, 2011	70.00	BB	29.48
Lovable Lingeries Ltd IPO	Mar 08, 2011	Mar 11, 2011	205.00	BB	93.28
PTC India Financial Services Ltd (PFS) IPO	Mar 16, 2011	Mar 18, 2011	28.00	BB	438.76
Shilpi Cable Technologies Ltd IPO	Mar 22, 2011	Mar 25, 2011	69.00	BB	55.88
Muthoot Finance Ltd IPO	Apr 18, 2011	Apr 21, 2011		BB	0.00
Paramount Printpackaging Ltd IPO	Apr 20, 2011	Apr 25, 2011		BB	0.00
Future Ventures India Ltd IPO	Apr 25, 2011	Apr 28, 2011		BB	750.00

The data related with capital issues:

	Public sector		Private sector		Grand Total	
Year	No.Of Issue	Amount.(Cr.)	Number of Issues	Amount	No.of Issue	Amount(Cr)
2003-04	158	48677	458	25937	616	69937
2004-05	144	44000	430	19613	574	77383
2005-06	158	57770	247	12585	405	47419
2006-07	130	29223	371	13563	501	42786
2007-08	107	39581	459	17640	566	57220
2008-09	81	31397	735	43589	816	74986
2009-10	87	48582	1124	69813	1211	118395
Total	865	299230	3824	202740	4689	501970
Average	124	42747	546	28963	670	71710



During the last seven years, the public sector has grown with an average of 61.6 % per annum as the amount of issue is concerned. While private sector grew with 38.38 % per year.

CONCLUSION:

Indian stock market has essentially three categories of participants, the issuer of securities the investors in the securities and the intermediaries. The issuers are the borrowers, who issue securities to raise funds. The investors, who are surplus savers, deploy their savings by subscribing to these securities. The intermediaries' are the agents who match the needs of users and suppliers of funds for a commission. These intermediaries perform functions to help both the issuers and investors to achieve their respective goals.

REFERENCES:

Boyer, J. A. (2003). *Performance differences between IPOs in new industries and IPOs in established industries. Emrealdinsight*.

Cai, N., Ramchand, L., & Warga, A. (2004). *The Pricing* of Equity IPOs that Follow Public Debt Offerings. Financial Management; , ABI/INFORM Global pg 5.

David R. Williams Æ W. Jack Duncan, P. G. ((2010)). *Testing a model of signals in the IPO offer process. Small Bus Econ*.

Ehsan Nikbakhta, M. S. (2007). *IPO Pricing and Executive Compensation. INTERNATIONAL JOURNAL OF BUSINESS*, .

Gopalaswamy, A. K. (2008). *LONG RUN POST ISSUE PERFORMANCE OF FIXED PRICE AND BOOK BUILT IPOs: AN EMPIRICAL STUDYON INDIAN MARKETS. Journal of Advances in Management*

Research Vol. 5 (II) , (pp. 64–76).
Mayur, M., & Kumar, M. (July 2009). *Ownership and Performance in an Emerging Market:Evidence from India. IUP Journal of Applied Financ , 5-23.*
Melas, D. F. (2007). *Initial performance of Greek IPOs, underwriter's reputation and oversubscription. Managerial Fianance,Vol. 33 No. 5, , pp. 332-343.*
Rajib, S. S. (OCTOBER - DECEMBER 2010). *After Market Pricing Performance of IPO,Indian IPO market 2006-2010. VIKALPA VOLUME 35 NO 4 , 27-54.*
Sabarinathan, G. (2011). *Attributes of Companies Making IPOs in India: Some Obeservations. south Asian Journal of Management , 83-95.*
Sasi, K. K. (2010). *Investors Preference on Financial Services. Global Business and Management Research , 253-274.*
Sawyer, N. &. (2002). *Ex-ante uncertainty in initial public offerings: The Indian market. Finance India , 961-976.*
Vaidyanathan, P. A. (2009). *Determinants of IPO Underpricing in the National Stock Exchange of India. IUP Journal of Applied Fianance , 14-29.*
Varshney, S., & Robinson, R. (2004). *IPO RESEARCH SYMPOSIUM REVIEW. Journal of Economics and Finance , 56.*
Ya-Fang, W., Lee, P., Chen-Lung, C., & Kleinman, G. (May 2005). *The impact of financial forecasts regulation on IPO anomalies: Evidence from Taiwan. Journal of Financial Regulation and Compliance , 146.*
Ya-Fang, W., Lee, P., Chen-Lung, C., & Kleinman, G. (May 2005). *The impact of financial forecasts regulation on IPO anomalies: Evidence from Taiwan. Journal of Financial Regulation and Compliance , 146.*
Ya-Fang, W., Lee, P., Chen-Lung, C., & Kleinman, G. (May 2005). *The impact of financial forecasts regulation on IPO anomalies: Evidence from Taiwan. Journal of Financial Regulation and Compliance , 146.*