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A Comparative Performance of the Indian IPOs during Medium Run, Long Run and Very Long Run

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Abstract

The liberalization of the Indian economy resulted in a rise in the number of companies going public. This rush in new issues also reflects the overall financial and economic health of the country. The new issues act as an opportunity for the investors to become the shareholders which is not possible in the already trading companies due to their high share price. This research analyses and compares the performance of IPOs with the two major benchmark indexes during the six months period, one year's period and three years period. The study covers a period of 1999-2019 and takes into consideration all IPOs listed on the National Stock Exchange (NSE) during this period. The hypotheses were tested using the Wilcoxon signed ranks.

The findings of this study highlights the existence of a statistically insignificant difference between the long-term returns and the BSE IPO Index, while the medium-run returns relative to the BSE IPO index show a significant difference; this signals notable shifts in investor perception over

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extended periods. This study aims to assist investors, stakeholders, and policymakers in understanding and navigating India's expanding IPO market. The insights provided may aid in making informed investment decisions and ensuring long-term success in India's evolving financial landscape.
Key Words:- *IPO, NSE, BSE, NIFTY50, BSE IPO, JEL classification: C22, G14, G15*

Introduction

Post the liberalization of the Indian economy in 1991, the financial sector, especially the primary markets, witnessed a significant growth in the volume of companies going public or launching an Initial Public Offering (IPO). An IPO refers to the process through which a company offers its shares to the public for the first time to raise capital. Chauhan (2011) defined an IPO as a process that enables companies to raise capital from the public while gaining global recognition by being listed on stock exchanges. Through an IPO, investors have the opportunity to purchase shares directly from the company at a price determined during the book-building process. The decision to go public is a widely recognized and common method for raising long-term capital, typically with an indefinite maturity period. The decision to go public is a widely recognized and common method for raising long-term capital, typically with an indefinite maturity period.

IPOs have consistently attracted attention because of their influence on the financial markets, the mood of investors, and their contribution to economic development. Mishra (2010), Chaturvedula (2021), Sreedevi & Madhavi Latha (2024), Hedau (2024), Kumari & Singh (2024) and Mishra A. K. (2012) have widely documented the short term performance of the IPOs; however the long term performance of IPOs is still less researched. This study brings the focus on the performance of the IPOs during the long run period and analyses the performance of all (435) IPOs listed on the National Stock Exchange (NSE) during the period 1999-2019. In this study, medium run covers a period of six months from the listing date; the Long run refers to a period of one year from the listing date of the IPOs, while the

very long run refers to a period of three years from the listing date of the IPOs.

Review of Literature

Ritter (1991) concluded that a group of matched firms, similar in size and industry, outperformed companies that brought IPOs. He further explained that investing in IPOs at the close of their first day of public trading and holding the investment for three years would result in only 83 cents for each dollar invested, compared to investing in matching firms. Lee, et al. (1995) studied the performance of the Australian IPOs and did not find any significant relationship between the underpricing and the long term returns. Whereas, Loughran & Ritter (1995) examined U.S. IPOs from 1970-1990 and found IPOs performed poorly as compared to matched firms in the long term. Stevenson & Dimovski (2014)**,** Jewartowski & Lizińska (2012), Cai, Liu, & Mase (2008), Hawaldar, Kumar, & Mallikarjunappa (2018), Shukla & Shaw (2018) and Wen & Cao (2013) also studied the performance of the IPOs during the medium, long run and very long run.

After a comprehensive review of various works of literature it was found that most of the studies have documented the performance of the IPOs in short run, whereas only a few studies have analyzed the medium, long and very long term performance of the Indian IPOs. This study focuses to analyze the performance of IPOs during the medium, long run and very long run. This study covers a period of 21 years and analyses all the IPOs listed on NSE during 1999 to 2019. The findings of this study would benefit the investors, market regulators, and other readers by giving insights about the behavior, trends, and performance of the Indian IPOs during the long and the very long run. In this study, medium run covers a period of six months from the listing date; the Long run refers to a period of one year from the listing date of the IPOs, while the very long run refers to a period of three years from the listing date of the IPOs.

Methodology

This study adopts a systematic approach to understand the performance of the IPOs during the medium, long and very long run period. This research is descriptive-cum-analytical in nature.

Objectives of the study

The objectives of this study are as follows:-

1. To analyze the return of IPOs during the medium and the long run
2. To analyze the return of the IPOs in the long run and the very long run return
3. To analyze the return of IPOs during the medium, long and very long run with the NIFTY50 and BSE IPO index return.

Hypothesis of the study

Based on the objectives of the study, the following null and alternate hypotheses were developed and tested:-

1. H_{01} (Null hypothesis): the median of the Nifty50 Return and the Raw Return of IPOs during the medium run does not show any significant difference

H_{11} (Alternative hypothesis): the median of the Nifty50 return and the raw return of IPOs during the medium run shows a significant difference.

2. H_{02} (Null hypothesis): the medians of the Long Run Raw Return of IPOs and Medium Run Raw Return of the IPOs shows no significant difference

H_{12} (Alternate hypothesis): the median of the Long Run Raw Return of IPOs and Medium Run Raw Return of the IPOs shows a significant difference

3. H_{03} (Null hypothesis): the median of the Return of BSE IPO and the Raw Return of IPOs during the medium run shows no significant difference

H_{13} (Alternate hypothesis): the median of the Return of BSE IPO and the Raw Return of IPOs during the medium run shows a significant difference

4. H_{04} (Null hypothesis): the median of the Nifty 50 Return and the Raw Return of the IPOs during the long run shows no significant difference

H_{14} (Alternate hypothesis): the median of the Nifty 50 Return and the Raw Return of the IPOs during the long run shows a significant difference

5. H_{05} (Null hypothesis): the median of the Very Long Run Raw Return and the Long Run Raw Return does not show any significant difference.

H_{15} (Alternate hypothesis): the median of the Very Long Run Raw Return and the Long Run Raw Return shows a significant difference.

6. H_{06} (Null hypothesis): the median of the Nifty 50 Return and the Raw Return of the IPOs during the very Long Run does not show any significant difference

H_{16} (Alternate hypothesis): the median of the Nifty 50 Return and the Raw Return of the IPOs during the very Long Run shows a significant difference

7. H_{07} (Null hypothesis): the median of the BSE IPO index's return and the Raw Return of the IPOs during the long run does not show any significant difference

H_{17} (Alternate hypothesis): the median of the BSE IPO index's return and the Raw Return of the IPOs during the long run shows a significant difference

8. H_{08} (Null hypothesis): the median of the BSE IPO index's and the Raw Return of the IPOs during the very long run does not show any significant difference

H_{18} (Alternate hypothesis): the median of the BSE IPO index's and the Raw Return of the IPOs during the very long run shows a significant difference

Research Design

This study adopts descriptive-cum-analytical research design to examine the performance of the IPOs during the different study period such as medium term, long and very long term. The design ensures the systematic collection, analysis and interpretation of the IPO data in a logical manner.

Sources of data

This study covers all the IPOs listed on the NSE during the period of 1999-2019. This study is purely based on secondary data source; the data of this study was extracted from the official NSE and the BSE website.

- Medium run, which covers a period of six months from the listing date
- Long run, covers a period of one year from the listing date
- Very long run, covers a period of three years from the listing date

Sampling technique and sample size

The data was collected using the universal sampling technique, as all the IPOs listed on the NSE official website were selected for the study. Hence, the sample size comprised the entire population of IPOs available during the selected study period.

Tools and Techniques of Analysis

For calculation of the raw return of the IPOs and the respective index's return during the medium, long and the very long run the following formula was used:-

Raw Return= $(p_t - p_{t-1})/p_{t-1}$

Where, p_t = price in time t (current price)

P_{t-1} = issue price/ allotment price

Based on the normality test the data was found to be not normally distributed henceforth the wilcoxon signed ranks test was applied to test the above stated hypothesis for the fulfillment of the objectives of this research. Khan et.al. (2021), Jewartowski & Lizińska, (2012), Zubair et al. (2016) and Shukla & Shaw (2018) also documented the use of the Wilcoxon signed rank test in their respective literatures. Since, the BSE IPO index was unavailable before the year 2004 the no. of IPOs when compared to the BSE IPO index is 416 and while comparing with NIFTY50 index it's 435.

Scope and limitations of the study

The scope of this study is broad, as it covers all the IPOs listed on the National stock exchange of India during the period 1999-2019 that were issued using the book-building method. This study aims to analyze the performance of IPOs during the medium, long and very long run period.

However, the study has certain limitations. It excludes IPOs listed on other stock exchanges during the study period. It is limited to the IPOs listed during the period of 1999-2019 on the NSE and doesn't consider the regulatory changes made after 2019. The study is focuses on IPOs listed on NSE using the book-building method and doesn't analyze the IPOs that were listed using the fixed-price method prior to 1999.

Data analysis and interpretation

Table 1- Descriptive Statistics

Time periods	**N**	**Mean**	**Std. Deviation**	**Minimum**	**Maximum**
Medium Run Raw Return	435	28.10537	87.237346	-88.617	570.679
Long Run Raw Return	435	30.60969	125.871980	-91.659	1103.036
Very Long Run Raw Return	435	23.51517	222.751580	-99.056	3055.789

Medium run Nifty50 Return	435	7.82857	23.486040	-45.890	298.760
Long Run Nifty50 Return	435	12.69680	33.606753	-74.410	353.140
Very Long run Nifty50 Return	435	34.40317	43.236681	-78.710	346.350
Medium Run Raw Return	416	25.55801	81.653794	-85.541	530.036
Long Run Raw Return	416	27.18044	115.631089	-91.659	993.947
Very Long Run Raw Return	416	18.56747	217.530394	-99.056	3055.789
Medium Run Return Of BSE IPO	416	4.99167	24.514229	-61.218	90.446
Long Run Return BSE IPO	415	7.59429	38.283812	-68.998	179.072
Very Long Run Return BSE IPO	416	22.07012	57.715087	-51.321	271.460

Source: Author's computation

Table 1 shows the descriptive statistics i.e. mean, Standard deviation, minimum, and maximum values for each variable. The summary statistics show the distribution and variability of the return of IPOs and the NIFTY 50 index during different periods.

Table 2-Ranks

Pair			N	Mean of Rank	Sum of Ranks
1	Medium Run Nifty50 Return - Medium Run Raw Return (H_{01})	Negative Ranks	234[y]	234.55	54884.00
		Positive Ranks	201[z]	198.74	39946.00
		Ties	0[aa]		
		Total	435		
2	Long Run Raw Return– Medium Run Raw Return (H_{02})	Negative Ranks	252[ab]	212.94	53662.00
		Positive Ranks	183[ac]	224.96	41168.00
		Ties	0[ad]		

		Total	435		
3	Long Run Nifty Return - Long Run Raw Return (H_{04})	Negative Ranks	187[ae]	248.90	46544.00
		Positive Ranks	248[af]	194.70	48286.00
		Ties	0[ag]		
		Total	435		
4	Very Long Run Raw Return - Long Run Raw Return (H_{05})	Negative Ranks	284[ah]	212.44	60333.00
		Positive Ranks	150[ai]	227.08	34062.00
		Ties	1[aj]		
		Total	435		
5	Very Long Run Nifty Return - Very Long Run Raw Return (H_{06})	Negative Ranks	115[ak]	225.32	25912.00
		Positive Ranks	320[al]	215.37	68918.00
		Ties	0[am]		
		Total	435		
Pair 1	y. Medium Run NIFTY Return < Medium Run Raw Return				
	z. Medium Run NIFTY Return > Medium Run Raw Return				
	aa. Medium Run NIFTY Return = Medium Run Raw Return				
Pair 2	ab. Long Run Raw Return < Medium Run Raw Return				
	ac. Long Run Raw Return > Medium Run Raw Return				
	ad. Long Run Raw Return = Medium Run Raw Return				
Pair 3	ae. Nifty return Long Run < Long Run Raw Return				
	af. Nifty return Long Run > Long Run Raw Return				
	ag. Nifty return Long Run = Long Run Raw Return				
Pair 4	ah. Very long run Raw Return < Long Run Raw Return				
	ai. Very long run Raw Return > Long Run Raw Return				
	aj. Very long run Raw Return = Long Run Raw Return				
Pair 5	ak. Very Long Run NIFTY return < Very long run Raw Return				
	al. Very Long Run NIFTY return > Very long run Raw Return				
	am. Very Long Run NIFTY return = Very long run Raw Return				

Source: Author's compilation

Table 2 shows the positive and negative ranks of the tested variable and highlights the following:-

For pair 1 (H_{01}), the summation of negative ranks exceeded the summation of positive ranks, indicating that the Medium run's raw return outperformed the NIFTY 50 returns during the medium run.

For pair 2 (H_{02}), the summation of positive ranks was lower than the summation of negative ranks, suggesting that the raw return of the medium run outperformed the raw return of the long run.

For pair 3 (H_{04}), the summation of the positive and negative ranks were close to each other suggesting little difference between the returns of the tested variables.

For pair 4 (H_{05}), the summation of the negative rank was greater than the summation of positive ranks, indicating the outperformance of the return of the long run in comparison to the raw return of the very long run period.

For pair 5 (H_{06}), the summation of positive ranks was greater than the summation of the negative ranks, indicating that the raw return of the very long run was lower than the NIFTY 50 return of that period.

Table 2.1- Test statistics[a]

	H01	H02	H04	H05	H06
	Nifty Return Medium Run - Medium Run Raw Return Close Price	Long Run Raw Return - Medium Run Raw Return	Long Run Nifty Return - Long Run Raw Return	Very Long Run Raw Return - Long Run Raw Return	Very Long Run Nifty Return - Very Long Run R Raw Return
Z	-2.847c	-2.381c	-.332b	-5.024c	-8.196b
Asymp. Sig. (2-tailed)	.004	.017	.740	.000	.000

Source: Self computed using SPSS

Wilcoxon Signed Ranks Test
Based on negative ranks
Based on positive ranks.

Table 2.1 presents the p-values for each hypothesis. The p-values (Asymp. Sig. 2-tailed) for H_{01}, H_{02}, H_{05}, and H_{06} are less than 0.05, leading to the rejection of these null hypotheses. In contrast, the p-value for H_{04} is greater than 0.05, indicating that the null hypothesis is not rejected, indicating no significant difference between the tested variables.

Table 3- Ranks

Pair			N	Mean of Rank	Sum of Ranks
1	Medium Run Return Of BSE IPO index– Medium Run Raw Return (H_{03}),	Negative Ranks	232[v]	224.89	52174.00
		Positive Ranks	184[w]	187.84	34562.00
		Ties	0[x]		
		Total	416		
2	Long Run Raw Return BSE IPO - Long Run Raw Return (H_{07}),	Negative Ranks	198[ab]	229.99	45538.00
		Positive Ranks	217[ac]	187.94	40782.00
		Ties	0ad		
		Total	415		
3	Very Long Run Raw Return BSE IPO - Very Long Run Raw Return (H_{08}),	Negative Ranks	128[ah]	210.21	26907.00
		Positive Ranks	288[ai]	207.74	59829.00
		Ties	0[aj]		
		Total	416		
Pair 1	v. Medium Run Return of BSE IPO index< Medium Run Raw Return				
	w. Medium Run Return of BSE IPO index > Medium Run Raw Return				

	x. Medium Run Return of BSE IPO index = Medium Run Raw Return
Pair 2	ab. Long Run Return BSE IPO index < Long Run Raw Return
	ac. Long Run Return BSE IPO index > Long Run Raw Return
	ad. Long Run Return BSE IPO index = Long Run Raw Return
Pair 3	ah. Very Long Run Return BSE IPO index < Very Long Run Raw Return
	ai. Very Long Run Return BSE IPO index > Very Long Run Raw Return
	aj. Very Long Run Return BSE IPO index = Very Long Run Raw Return

Source: Self computed using SPSS

Table 3 shows the mean and summation of ranks of each pair, indicating the performance of variables against each other.

For pair 1 (H_{03}), the summation of negative ranks was higher than the summation of positive ranks showing that the raw return of the IPOs exceeded the return yielded by the BSE IPO index during that period.

For pair 2 (H_{07}), the summation of the value of the negative rank is close to the summation of the positive rank value, indicating that the raw return of the IPOs during the long run was almost equivalent to the return of the BSE IPO index during that period.

For pair 3 (H_{08}), the summation of positive ranks was more than the summation of negative ranks indicating that the raw return of the IPOs during the very long run did not outperform the return of the BSE IPO index during that period.

Table 3.1- Test statistics[a]

	H_{03}	H_{07}	H_{08}
	Medium Run Return Of BSE IPO - Medium Run Raw Return	Long Run Return BSE IPO - Long Run Raw Return	Very Long BSE IPO index's return - Very Long Run Raw

			Return
Z	-3.589c	-.973c	-6.708b
Asymp. Sig. (2-tailed)	.000	.331	.000

Source: Self computed using SPSS

a. Wilcoxon Signed Ranks Test
b. Based on negative ranks.
c. Based on positive ranks.

Table 3.1 presents the p-values for each hypothesis. The p-value (Asymp. Sig. 2-tailed) for H_{07} was greater than 0.05, indicating that the null hypothesis couldn't be rejected, suggesting non existence of any significant difference between the tested variables. In contrast, the p-values for H_{03} and H_{08} were less than 0.05, leading to the rejection of their null hypotheses. This indicates that the medians of these variables significantly differed from each other.

Findings

The raw return of IPOs and the NIFTY 50 returns (H_{04}), failed to show any significant difference during the long run, as indicated by a p-value of 0.740. The sum of ranks also supports this finding, documenting that the returns of the IPOs in the long run were statistically equivalent to the returns of the NIFTY 50 index. On the contrary, the sum of positive and negative ranks for the H_{01}, H_{02}, H_{05}, H_{06} are not close to each other. Further p values for all these hypothesis were less than 0.05, indicating that the returns of the variables significantly differed from each other. Therefore, these null hypotheses H_{01}, H_{02}, H_{05} and H_{06} are rejected, and the alternate hypothesis i.e. there exists a significant difference between these variables is accepted.

The return of the S&P BSE IPO index and the raw return of IPOs during the long run (H_{07}) showed no significant difference, highlighting that IPOs performed on par with the market index during the long run. The ranks of variables also justified this conclusion, as the sum of negative and positive ranks were relatively close in this case, suggesting a similar return

of IPOs in the long run and the return of the BSE IPO index. On contrary, the H_{03} and H_{08} showed p values less than 0.05, indicating the rejection of these null hypotheses and acceptance of the alternate hypothesis i.e. the returns of IPOs in these runs and the returns of the BSE IPO index are significantly different. During the medium run, the sum of negative ranks was higher than the sum of positive ranks, indicating that the raw return of the IPOs outperformed the return of the BSE IPO index during this period. In contrast, during the very long run, the sum of positive ranks exceeded the sum of negative ranks, suggesting that the raw return of the IPOs did not outperform the BSE IPO index during this period. These results are consistent with those of Lee et al. (1995), who examined the Australian IPO markets over a period of three years and concluded that there was no connection between the very long-term returns of IPOs and underpricing in the way suggested by overreaction or fad theories.

In most observations, the return of the medium run was significantly higher than the return of the IPOs during the long run, as indicated by the sum of ranks and the p value in case of H_{02}. However, the average raw return of the IPOs during the long run was higher compared to the average raw return of the IPOs during the medium run. Additionally, according to the ranks table, IPOs yielded significantly higher returns in the long run more frequently than in the very long run (i.e., 3 years)

Discussion

The study analyzed the medium-run, long-run, and very long-run performance of the IPOs listed on the NSE during 1999-2019 that used the book-building method. The findings revealed that IPO performance varied across different holding periods. It was also noted that there was a significant difference between the performance of the IPOs and the selected benchmark indices in the medium and very long run. However, in the long run, IPO returns were equivalent to the NIFTY 50 & BSE IPO index returns.

The study also highlights that the IPOs outperformed the BSE IPO index during the medium run but then gradually underperformed in the very

long run. The IPOs delivered higher returns more frequently in the long run than in the very long run, indicating that returns gradually decline over the very long run.

The study concludes that IPOs generate better returns compared to the long and very long run and can generate equivalent returns to the benchmark indices during the long run period. However, their ability to generate equivalent or higher returns during the very long run diminished. These findings can help investors, policymakers, and upcoming IPOs in understanding the long-term performance of IPOs in the Indian stock markets.

Recommendation

1. In this study, the Indian IPOs yielded significantly higher returns in the medium run (6 months) compared to the long and the very long run. Hence, it can be suggested to withdraw the investment during the medium run or long run (1 year) to maximize their profits.
2. The IPOs yielded higher returns over a one-year period compared to a three-year period. Therefore, it is suggested to monitor the investment during the long run, as this period offers a balance between maximizing returns and managing risk
3. In comparison with the NIFTY50 and the BSE IPO Index, the IPOs in the medium and long run significantly outperformed the index. Investors may consider using the NIFTY 50 and BSE IPO Index as a reference point for assessing the relative performance of IPOs and making informed decisions on when to exit or reallocate investments.

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