

The Indian Primary Capital Markets – An Anatomical Study of the Returns and Their Determinants

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Abstract

The primary capital markets in India have transformed so comprehensively that their present state is so incomparably different where they were as recently as just two decades ago. The composition of the investors in the primary capital markets has shifted from retail to institutional. Pricing of issues also has fundamentally changed; while the issues were extremely under-priced in the past, they are mostly over-priced in the modern era. A very large proportion of the primary issues in the modern era have yielded negative returns for the investors. The quality of regulation and disclosure has apparently improved in a considerable manner. Generally, the issuers used to suffer higher cost of capital due to the generally prevalent under-pricing of equity issues in the primary market in the past; the modern era represents the opposite extreme where the issues are generally tilted in favor of the issuers, implicitly leading to much lower cost of capital. The Indian securities market had witnessed introduction of some important institutional mechanisms in the early part of this millennium. These institutional mechanisms were aimed at bringing in the best practices and making the Indian capital market comparable to the global markets.

1. Objectives of the Study

The specific objectives of the study are:

- To study different issue pricing regimes in India;
- To analyze in detail the book building process;
- To know important differences between fixed pricing and book building process;
- To analyze the performance of IPOs in the market during the years 2004-2015; and,
- To identify the companies whose stocks are trading at discount and those companies whose stocks are trading at premium among those companies that issued equity shares over the period from 2004-2015.

1.1 Research Problem

The research problem that the present study attempts to investigate into involves the need to rejuvenate the impoverished state of primary capital markets in India, which has mainly resulted due to overpricing of the issues by the issuing companies, obviously as advised by the merchant bankers.

1.2 Collection of Data

The present research effort is an attempt at measuring the returns that the public offers have yielded over the past decade, which covers various states of capital markets like the bull phase, the bear phase and the intervening consolidation phases. The necessary data has been gathered from the official sites of the two premier stock exchanges – the NSE and the BSE.

1.3 Scope of the Proposed Study

The scope of the study is limited to the IPOs issued during the period 1-4-2004 to 1-4-2015 (11 years). An attempt has been made to identify and measure the relationship between various determinant factors identifiable with the specific issues and the rates of return yielded by the issues that have been made during the study period. The specific factors that have been considered for the study include: fixed price issues and book built issues; ratings assigned by agencies wherever relevant; issue managers; composition of investors and such other factors.

2. Different Issue Pricing Regimes in India

2.1 The controller of capital issue (CCI) formula pricing regime

Prior to 1992 new companies were allowed to issue shares only at par, while existing companies with substantial reserves could issue shares at a premium calculated in accordance with CCI norms. In other words, the issuers did not have freedom with regards to pricing of their issues. These regulations aimed at protecting the investors from erring issuers.

2.2 The fixed price regime

Securities and Exchange Board of India (SEBI) was formed under the SEBI Act 1992 and CCI guidelines were abolished. Under the free price regime eligible companies have the freedom to issue shares at a price determined by themselves in consultation with the lead

manager and giving justification for the proposed premium by disclosing all the relevant information. In the earlier regime, the fixed prices' regime was prevalent and all the subscribers were to apply at the same fixed price. Obviously, there was huge mis-pricing of issues. They were generally underpriced by a large margin, as compared to their intrinsic values. In case of over subscription the allocation was made on a pro rata basis. Disadvantages of this method are, if the issue is underpriced it will lead to over subscription resulting in huge refunding cost and in case of over pricing the issue may not be fully subscribed leading to devolvement. However, even today the fixed price route of issuing shares is still available to the issuers in India.

2.3 Issuing shares through book building process

During the year 1995 the Malegam Committee recommended the introduction of book building as a mechanism to gauge the issue price and in 1998 SEBI brought forward the guidelines for issuing shares through the book building process. Under book building method a company can issue shares to the public hundred per cent of the net offer through book building process or 75 per cent of the net offer to public through book building process and 25 per cent of the net offer to the public at the price determined through book building process. The first company to issue under the book building mechanism was Hughes Software System Ltd., in September 1999. The process of book-building leads to the discovery of prices of the issues – particularly the equity issues – much accurately as compared to the huge differentials that prevailed in the earlier regime.

2.3.1 The Process

1. The issuing company appoints the lead manager for the issue who in turn will enter into an agreement with a set of underwriters called syndicate members with whom investors can place orders.
2. The company in consultation with the lead managers specifies a minimum acceptable price known as the floor price.
3. Once the floor price is fixed the upper price of the issue is automatically capped at 120 per cent of the floor price as per regulation.
4. Floor price could be revised by 20 per cent upwards or downwards but subsequently the ceiling price will also get revised.
5. The book must stay open for at least five days and in case of revision of floor price the books shall be open for a minimum period of 3 days consequent to the revision subject to the condition that the total bidding time will not exceed 13 days.
6. One cannot submit bids that are lower than the floor price and bids can be altered by the bidder prior to the closer of the issue.

7. Once the bidding process is complete the lead manager and issuer will determine the cut-off price or the market clearing price and shares will be allocated on a uniform price basis to all successful bidders
8. Allocation to the retail investor is to be made on a proportionate basis while allocation to the institutional investors is at the discretion of the lead manager. But in the revised guideline that came in to force from November 2005, allotment to institutional investors is also to be made on proportionate basis.

3. Important Differences between Fixed Pricing and Book Building Process

1. **Pricing:** Price at which the securities are offered is known in advance to the investor under fixed pricing. Whereas in case of book building process price at which securities will be offered is not known in advance to the investor. Only an indicative price is known. The issuing company is allowed to freely pricing the issues under fixed pricing process. But under book building process the price for the securities is assessed on the basis of the bids obtained for quantum for securities offered for subscription by the issuer.
2. **Demand:** Under fixed pricing process, demand for the securities offered is known only after the closure of the issue but under book building process demand for securities offered can be known every day as the book is built.
3. **Payment:** Payment is made at the time of subscription wherein refund is given after allocation under fixed pricing process, whereas in case of book building process payment is made only after allocation.

4. Indian Primary Market

To look into the past 11 years data of how primary markets have performed first and foremost we need to understand how secondary market has performed in the same time period.

For this reason we have taken NIFTY PERFORMACE as INDEX BENCHMARK.

Table1: NIFTY performance in India during 1-4-2004 to 1-4-2015

Year	Nifty Value
1/4/2004	1856
1/4/2005	2067
1/4/2006	3403
1/4/2007	3820
1/4/2008	4741
1/4/2009	3061
1/4/2010	5291
1/4/2011	5842
1/4/2012	5296
1/4/2013	5701
1/4/2014	6757
1/4/2015	8615

Source: CHART INK website

Also, it is noted that during the last 11 years Nifty had made all time high of 9119 and low of 1856.

Another Interesting point to consider in last 11 years of volatile secondary market, 2008 and 2011 are the only two years which was in negative territory.

Let's look into the Primary Market Activity during last 11 years

Table2: Primary Market activity during 1-4-2004 to 1-4-2015

Year	Market Interpretation	Approx.IPO'S Issued (ONLY IPO'S)
2004 TO 2007	Bull Market	143
2008	Bear Market	28
2009 to 2010	Bull Market	63
2011- 2013	Sideways Market	41
2014 TO Present	Bull Market	10

Source: CHART INK website

There is a direct relationship between the investor sentiment and issue of new shares, when the investor sentiment is low the paper issue will be low and vice versa.

Performance of IPO'S During the Various Market Cycles

2004-2007: What we can see from the above table is from the year 2004 to 2007 there was humongous activities for issuing of new shares has taken place. Around 143 New IPO'S had been issued out of 87 issues are trading discount value to their premium i.e. 60% is below their issue price .So retail investor must have holistic view before investing in the primary market.

2008: Around 28 issues, 23 issues are trading below their issue price. That nearly comes to 80 %.

2009 to 2010: Around 63 issues, 46 issues are trading below their issue price, which again comes around 70 %.

2011-2013: Around 41 issues, 21 issues are trading below their issue price, which comes around 50 %.

2014 to Present: Out of 10 issues, 5 issues are trading premium to their issue prices

Table3: The Discount Trading Companies to their Issue Price

Company Name	CMP as on 8 th May 2015	ISSUE PRICE	Down Points
EDELWEISS CAPITAL LIMITED	59.2	825	-765.8
Jet Airways (India) Limited	376.5	1100	-723.5
Punj Lloyd Limited	26.55	700	-673.45
B. L. Kashyap & Sons Limited	12.5	685	-672.5
Unity Infraprojects Limited	16.55	675	-658.45
TAKE Solutions Limited	101.95	730	-628.05
OIL INDIA LIMITED	472.35	1050	-577.65
SKS MICROFINANCE LIMITED	446.6	985	-538.4
Motilal Oswal Financial Services Limited	292.9	825	-532.1
Sun TV Limited	360	875	-515

Consolidated Construction Consortium Limited	4.35	510	-505.65
Suzlon Energy Limited	24.1	510	-485.9
JYOTHY LABORATORIES LIMITED	244	690	-446
TITAGARH WAGONS LIMITED	94.05	540	-445.95
HT Media Limited	102.5	530	-427.5
ARSS INFRASTRUCTURE PROJECTS LIMITED	33.5	450	-416.5
RAMKY INFRASTRUCTURE LIMITED	34.8	450	-415.2
D B REALTY LIMITED	65.3	468	-402.7
RELIANCE POWER LIMITED	53.85	450	-396.15
DLF Limited	132.85	525	-392.15
Housing Development and Infrastructure Limited	119	500	-381
Prime Focus Limited	36.75	417	-380.25
EMPEE DISTILLERIES LIMITED	25.7	400	-374.3
Gokaldas Exports Limited	60	425	-365
BGR ENERGY SYSTEMS LIMITED	116	480	-364
ONMOBILE GLOBAL LIMITED	77.7	440	-362.3
Allcargo Global Logistics Limited	324.05	675	-350.95
TECPRO SYSTEMS LIMITED	9.05	355	-345.95
Zylog Systems Limited	4.3	350	-345.7
Purvankara Projects Limited	71.8	400	-328.2
Uttam Sugar Mills Limited	12.3	340	-327.7
GVK Power & Infrastructure Limited	8.35	310	-301.65
Parsvnath Developers Limited	20.75	300	-279.25
Shree Renuka Sugars Limited	11.95	285	-273.05
Time Technoplast Limited	45.05	315	-269.95
C & C Constructions Limited	24.95	291	-266.05
Plethico Pharmaceuticals Limited	35.4	300	-264.6
SHRIRAM EPC LIMITED	35.5	300	-264.5
Tanla Solutions Limited	16	265	-249
SHREE GANESH JEWELLERY HOUSE LIMITED	14.75	260	-245.25
GODREJ PROPERTIES LIMITED	246	490	-244
BRIGADE ENTERPRISES LIMITED	150.65	390	-239.35
Lanco Infratech Limited	5	240	-235
BAJAJ CORP LIMITED	425.9	660	-234.1
Transformers And Rectifiers (India) Limited	235	465	-230
Sobha Developers Limited	418	640	-222
Kernex Microsystems (I) Limited	36	250	-214
MAN INFRACONSTRUCTION LIMITED	43.35	252	-208.65
Nectar Lifesciences Limited	32.5	240	-207.5
Jagran Prakashan Limited	113	320	-207
Bang Overseas Limited	8.55	207	-198.45
AUSTRAL COKE & PROJECTS LIMITED	0.55	196	-195.45
GMR Infrastructure Limited	14.9	210	-195.1
NU TEK INDIA LIMITED	0.6	192	-191.4

R Systems International Limited	63.4	250	-186.6
HATHWAY CABLE & DATACOM LIMITED	54.45	240	-185.55
KSK ENERGY VENTURES LIMITED	55.75	240	-184.25
Advanta India Limited	459	640	-181
Nelcast Limited	38	219	-181
GOKUL REFOILS AND SOLVENT LIMITED	15.4	195	-179.6
Omaxe Limited	135	310	-175
Allied Digital Services Limited	17.1	190	-172.9
Autoline Industries Limited	56.2	225	-168.8
NMDC LIMITED	131.35	300	-168.65
Celebrity Fashions Limited	13.2	180	-166.8
ASHOKA BUILDCON LIMITED	157.5	324	-166.5
Tara Jewels Limited	59.55	225	-165.45
Euro Ceramics Limited	6.15	165	-158.85
Nitin Fire Protection Industries Limited	33.3	190	-156.7
GAMMON INFRASTRUCTURE PROJECTS LIMITED	12	167	-155
Gitanjali Gems Limited	41.25	195	-153.75
Simplex Projects Limited	32.05	185	-152.95
NITCO Tiles Limited	15.75	168	-152.25
Everest Kanto Cylinder Limited	10.55	160	-149.45
Raj Television Network Limited	112.05	257	-144.95
VASCON ENGINEERS LIMITED	20.35	165	-144.65
Global Vectra Helicorp Limited	44.7	185	-140.3
MIC Electronics Limited	11.85	150	-138.15
D-Link (India) Limited	174.2	300	-125.8
MOIL LIMITED	249.6	375	-125.4
Royal Orchid Hotels Limited	40	165	-125
Provogue (India) Limited	5.9	130	-124.1
FIRST WINNER INDUSTRIES LIMITED	3.5	125	-121.5
RAJ OIL MILLS LIMITED	1.15	120	-118.85
HOV Services Limited	83.15	200	-116.85
Everonn Systems India Limited	24	140	-116
CORDS CABLE INDUSTRIES LIMITED	23.3	135	-111.7
Allsec Technologies Limited	24.8	135	-110.2
Educomp Solutions Limited	15.35	125	-109.65
MANAKSIA LIMITED	50.5	160	-109.5
INVENTURE GROWTH AND SECURITIES LTD	10.8	117	-106.2
COMMERCIAL ENGINEERS & BODY BUILDERS CO LIMITED	21.6	127	-105.4
INNOVENTIVE INDUSTRIES LIMITED	12.25	117	-104.75
C. MAHENDRA EXPORTS LIMITED	8.8	110	-101.2
Orbit Corporation Limited	11.65	110	-98.35
Omnitech Infosolutions Limited	7.3	105	-97.7
3i Infotech Limited	5.05	100	-94.95

Action Construction Equipment Limited	37.05	130	-92.95
IL&FS TRANSPORTATION NETWORKS LIMITED	167.5	258	-90.5
GRAVITA INDIA LIMITED	36.4	125	-88.6
ACROPETAL TECHNOLOGIES LIMITED	2.9	90	-87.1
SEL Manufacturing Company Limited	3.35	90	-86.65
Atlanta Limited	63.7	150	-86.3
BEDMUTHA INDUSTRIES LTD	16	102	-86
JAYPEE INFRATECH LIMITED	16.3	102	-85.7
Hanung Toys and Textiles Limited	11.55	95	-83.45
Pratibha Industries Limited	38.6	120	-81.4
BHARATIYA GLOBAL INFOMEDIA LIMITED	2.75	82	-79.25
TEXMO PIPES & PRODUCTS LTD	11.9	90	-78.1
TECHNOFAB ENGINEERING LIMITED	162	240	-78
CANTABIL RETAIL INDIA LIMITED	61.5	135	-73.5
PUNJAB & SIND BANK	48.35	120	-71.65
TARAPUR TRANSFORMERS LIMITED	5.7	75	-69.3
SYNCOM HEALTHCARE LIMITED	6.2	75	-68.8
JINDAL COTEX LIMITED	8.35	75	-66.65
Bartronics India Limited	10.65	75	-64.35
Raj Rayon Limited	0.65	65	-64.35
RENAISSANCE JEWELLERY LIMITED	86.2	150	-63.8
Lokesh Machines Limited	77.25	140	-62.75
PARABOLIC DRUGS LIMITED	12.4	75	-62.6
Emkay Share and Stock Brokers Limited	57.9	120	-62.1
Indowind Energy Limited	4.75	65	-60.25
SPL Industries Limited	10.15	70	-59.85
INDO THAI SECURITIES LIMITED	14.35	74	-59.65
RAVI KUMAR DISTILLERIES LIMITED	4.55	64	-59.45
ADANI POWER LIMITED	41.65	100	-58.35
PG ELECTROPLAST LIMITED	152.2	210	-57.8
SUDAR GARMENTS LIMITED	20.95	77	-56.05
DEN NETWORKS LIMITED	140	195	-55
BROOKS LABORATORIES LIMITED	45	100	-55
VKS Projects Limited	0.15	55	-54.85
GLOBUS SPIRITS LIMITED	45.55	100	-54.45
Precision Pipes and Profiles Company Limited	96.15	150	-53.85
Alpa Laboratories Limited	14.5	68	-53.5
KAUSHALYA INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED	7.4	60	-52.6
MAHINDRA HOLIDAYS & RESORTS INDIA LIMITED	250	300	-50
Transwarranty Finance Limited	5.9	52	-46.1
ALKALI METALS LIMITED	58.55	103	-44.45
ARCHIDPLY INDUSTRIES LIMITED	32.85	74	-41.15
Visa Steel Limited	16.5	57	-40.5

NITESH ESTATES LIMITED	13.8	54	-40.2
UNITED BANK OF INDIA	25.85	66	-40.15
COX AND KINGS (INDIA) LIMITED	292.45	330	-37.55
SRS Limited	20.7	58	-37.3
ONELIFE CAPITAL ADVISORS LIMITED	72.9	110	-37.1
MICROSEC FINANCIAL SERVICES LIMITED	83.2	118	-34.8
PARAMOUNT PRINTPACKAGING LIMITED	0.75	35	-34.25
ORIENT GREEN POWER COMPANY LIMITED	13.25	47	-33.75
Firstsource Solutions Limited	30.4	64	-33.6
SANGHVI FORGING AND ENGINEERING LTD	53.1	85	-31.9
Sasken Communication Technologies Limited	228.95	260	-31.05
Dishman Pharmaceuticals & Chemicals Limited	144.4	175	-30.6
SHILPI CABLE TECHNOLOGIES LIMITED	39	69	-30
Triveni Engineering & Industries Limited	18.5	48	-29.5
Ankit Metal & Power Limited	2.3	30	-27.7
Magnum Ventures Limited	2.6	30	-27.4
EMMBI POLYARNS LIMITED	19.4	45	-25.6
SERVALAKSHMI PAPER LIMITED	3.45	29	-25.55
LOTUS EYE CARE HOSPITAL LIMITED	13	38	-25
BARAK VALLEY CEMENTS LIMITED	17.1	42	-24.9
Tantia Constructions Limited	21.05	45	-23.95
ARIES AGRO LIMITED	106.2	130	-23.8
20 MICRONS LIMITED	33.75	55	-21.25
GYSOAL ALLOYS LIMITED	52	71	-19
Adhunik Metaliks Limited	18.45	37	-18.55
NHPC LIMITED	19.3	36	-16.7
Sita Shree Food Products Limited	14.95	30	-15.05
RUSHIL DECOR LIMITED	58	72	-14
BIRLA COTSYN INDIA LIMITED	0.1	14	-13.9
INDOSOLAR LIMITED	15.4	29	-13.6
S.A.L. Steel Limited	1.9	14	-12.1
Nissan Copper Limited	1.9	10	-8.1
ELECTROSTEEL STEELS LIMITED	4.5	11	-6.5
Meghmani Organics Limited	14.9	19	-4.1
Accel Frontline Limited	72.9	75	-2.1
SJVN LIMITED	24.1	26	-1.9
Redington (India) Limited	112	113	-1

Source: CHART INK website

Table4: The Premium Trading Companies

Company Name	CMP	ISSUE PRICE	UP Points
Ruchira Papers Limited	26.5	23	3.5
ABG Shipyards Limited	188.95	185	3.95
MUTHOOT FINANCE LIMITED	179.8	175	4.8

JSW ENERGY LIMITED	108.6	100	8.6
Central Bank of India	110.9	102	8.9
L&T FINANCE HOLDINGS LIMITED	61.95	52	9.95
Pochiraju Industries Limited	41.2	30	11.2
Speciality Restaurants Limited	164.9	150	14.9
Gayatri Projects Limited	156	141	15
Godawari Power and Ispat Limited	98.1	81	17.1
PRAKASH STEELAGE LIMITED	130	110	20
Asahi Songwon Colors Limited	119.7	98	21.7
Nitin Spinners Limited	43.2	21	22.2
PTC INDIA FINANCIAL SERVICES LIMITED	52.95	28	24.95
MT EDUCARE LIMITED	105.3	80	25.3
Talbro Automotive Components Limited	129.6	102	27.6
Tribhovandas Bhimji Zaveri Limited	149	120	29
Asian Granito India Limited	127.25	97	30.25
INOX Leisure Limited	151.9	120	31.9
Shemaroo Entertainment Limited	202.65	170	32.65
Snowman Logistics Limited	83.65	47	36.65
IRB Infrastructure Developers Limited	229.65	185	44.65
Bannari Amman Spinning Mills Limited	181.05	135	46.05
Cairn India Limited	206.25	160	46.25
New Delhi Television Limited	119	70	49
Power Grid Corporation Of India Limited	140	90	50
HINDUSTAN MEDIA VENTURES LIMITED	217	166	51
Power Trading Corporation of India Limited	68.7	16	52.7
Indian Bank	145	91	54
Fortis Healthcare Limited	163.15	108	55.15
Bombay Rayon Fashions Limited	126.45	70	56.45
ASTEC LIFESCIENCES LIMITED	140.8	82	58.8
INFINITE COMPUTER SOLUTIONS (INDIA) LIMITED	224.9	165	59.9
Ess Dee Aluminium Limited	288	225	63
L.T.Overseas Limited	119.25	56	63.25
OMKAR SPECIALITY CHEMICALS LIMITED	162.25	98	64.25
KOLTE PATIL DEVELOPERS LIMITED	210	145	65
FLEXITUFF INTERNATIONAL LIMITED	220.5	155	65.5
Mahindra & Mahindra Financial Services Limited	269.8	200	69.8
TD POWER SYSTEMS LIMITED	327	256	71
R.P.P. INFRA PROJECTS LIMITED	152.2	75	77.2
PRESTIGE ESTATES PROJECTS LIMITED	261.5	183	78.5
National Thermal Power Corporation Limited	141.85	62	79.85
LOVABLE LINGERIE LIMITED	286.5	205	81.5
Gujarat State Petronet Limited	108.55	27	81.55
Indoco Remedies Limited	332	245	87
INTRASOFT TECHNOLOGIES LIMITED	232	145	87

Idea Cellular Limited	168.5	75	93.5
Supreme Infrastructure India Limited	202	108	94
Sadbhav Engineering Limited	280.65	185	95.65
Aurionpro Solutions Limited	196.85	90	106.85
THANGAMAYIL JEWELLERY LIMITED	190.1	75	115.1
COAL INDIA LIMITED	363.2	245	118.2
Biocon Limited	434.8	315	119.8
Technocraft Industries (India) Limited	224.8	105	119.8
MANDHANA INDUSTRIES LIMITED	253.5	130	123.5
Infrastructure Development Finance Company Limited	159.8	34	125.8
Shoppers Stop Limited	371.4	238	133.4
D.B. CORP LIMITED	358	212	146
T.V. Today Network Limited	243.25	95	148.25
Petronet LNG Limited	169.2	15	154.2
SMS Pharmaceuticals Limited	538.65	380	158.65
GUJARAT PIPAVAV PORT LIMITED	212.15	46	166.15
Religare Enterprises Limited	352.1	185	167.1
Bharti Infratel Limited	390.05	220	170.05
Power Finance Corporation Limited	257.5	85	172.5
PC Jeweller Limited	321	135	186
RURAL ELECTRIFICATION CORPORATION LIMITED	297.1	105	192.1
TALWALKARS BETTER VALUE FITNESS LIMITED	330.1	128	202.1
EROS INTERNATIONAL MEDIA LIMITED	402.1	175	227.1
Repro India Limited	414.8	165	249.8
Tech Mahindra Limited	619.55	365	254.55
TREE HOUSE EDUCATION & ACCESSORIES LIMITED	400.85	135	265.85
Gateway Distriparks Limited	346.75	72	274.75
KNR Construction Limited	453	170	283
V-Mart Retail Limited	518.05	210	308.05
Voltamp Transformers Limited	665	345	320
K.P.R. Mill Limited	603.1	225	378.1
MBL INFRASTRUCTURES LIMITED	564.85	180	384.85
PERSISTENT SYSTEMS LIMITED	701.95	310	391.95
Info Edge (India) Limited	735	320	415
PVR Limited	651	225	426
J. K. Cement Limited	590.4	148	442.4
FIEM Industries Limited	582	137	445
J. Kumar Infraprojects Limited	617	110	507
Entertainment Network (India) Limited	694.15	162	532.15
Just Dial Limited	1118	530	588
NATIONAL BUILDINGS CONSTRUCTION CORPORATION LIMITED	754.15	106	648.15
Kaveri Seed Company Limited	823.15	170	653.15
Credit Analysis and Research Limited	1516	750	766
Yes Bank Limited	826.55	45	781.55

AIA Engineering Limited	1112.05	315	797.05
Emami Limited	903.25	70	833.25
MindTree Consulting Limited	1263	425	838
V-GUARD INDUSTRIES LIMITED	942	82	860
ECLERX SERVICES LIMITED	1575.85	315	1260.85
JUBILANT FOODWORKS LIMITED	1429	145	1284
Tata Consultancy Services Limited	2530	850	1680
Kewal Kiran Clothing Limited	2240	260	1980
ICRA Limited	4352.8	330	4022.8
Page Industries Limited	13329.95	360	12969.95

Source: CHART INK website

5. Findings

- There is a direct relationship between the investor sentiment and issue of new shares. Issues made during the bull phase generally succeed in yielding positive returns on the listing day. However, over time, their returns begin to diminish considerably.
- When the investor sentiment is low the public issue will be low and vice versa. When the markets are going through a bear phase, the issues are low in number; however, such issues yield better returns over time.
- During 2004-2007 there were humongous activities for issuing new shares has taken place. Out of 143 new IPO's had been issued 87 issues are trading below their issue price i.e., 60 percent below their issue price.
- During 2008 out of 28 issues, 23 issues are trading below their issue price i.e., 80 percent
- During 2011-2013, out of 41 issues 21 issues are trading below their issue price which comes around 50 percent.
- 2014 to present, out of 10 issues 5 issues are trading at a premium to their issue price.
- The Study shows the dangerous track record of how promoters are trapping the market by issuing the shares when there is huge positive sentiment and unlocking their value of shares but ironically the retail investor is falling prey to and loosing enormous wealth.

6. Suggestions

- Promoters must take into consideration and offer shares to retail investors.
- The merchant bankers that act as lead managers to the issues need to appreciate the fact that overpricing results in substantial loss of goodwill for the issuer. This will certainly lead to a contraction of P/E ratio over time, which means that the cost of capital for such issuers increases over time.
- Retail investors must be very choosy before investing in IPO market. The present day regime of pricing of issues really does not provide any scope for capital appreciation. They could consider investing in good quality stocks in the secondary market. Investors

must know about the objectives of the issues. Investors should study Balance sheet of the company. They should check the credit rating of the issues if any.

- Investor must not invest from the borrowed funds. They need to realize that issuing in equities is a long term investment option. In the short term, there is no guarantee that there will be a positive return.
- The rating agencies that investigate into the worth of the issues and assign ratings need to be more meticulous in their efforts to arrive at a rating that accurately reflects the quality of the issues. In India, there appears to be no correct reflection of the quality of the issues in terms of the ratings assigned.
- The regulator needs to carry out research about the returns yielded by the new issues and investigate into the reasons when there are negative returns. This will educate the investors about the reasons that lead to overpricing and hence negative returns.

7. Conclusion

The conclusion which can be drawn from past 11 years study is around 70 % of IPO'S are trading at their discount value to their issue prices and 30 % are trading at their premium. It would be advisable to retail investor to be careful and not to be swayed by the hype of the public issue. Such dismal performance has kept the investors away from the capital markets. Retail investors have almost completely abandoned the equity markets. They are even shunning the mutual fund route to invest in capital markets. Capital market, being such a crucial component of an emerging economy, needs to provide equitable opportunities for both the issuers and the investors. Only then will the Indian capital markets achieve the requisite level of maturity that can help the Indian economy to achieve higher levels of growth.

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