

---

# THE PERFORMANCE OF IPO'S FROM THE INDIAN BANKING INDUSTRY : A STUDY OF PUBLIC SECTOR BANKS

---

Dr. Lovleen Gupta\*

Dr. Sanjay Kumar Singh\*\*

## ABSTRACT

Most of the extant studies concentrate only on listing gains as a criterion for assessing market efficiency. It is based on the notion that with liberalization markets assume maturity and become more 'efficient' in discriminatory between 'good' and 'bad' issues. The focus is on explaining the listing gains and current gains from the IPOs of public sector banks in India.

**Keywords :** Initial public offering (IPO) ,Banks

**JEL Classification:** G14, G32

## INTRODUCTION

Finance is the lifeblood of every business house whether small or big, public or private. Banking sector is not an exception, rather the banks play a pivotal role in the financial system of the country. The business houses need money for expansion or for paying debts or for venturing new projects etc. However every organization cannot arrange funds on its own, so the most important route of getting money is going public by issuing securities. The securities, which the companies issue for the first time either after incorporation or on conversion from private to public, are called initial public issues or Initial Public offerings.

The researchers across the countries have analysed the short-run and long run performance of companies issuing IPOs. However very fewer studies have been done in India to study the performance of IPOs of banking industry.

## LITERATURE REVIEW

Jay R. Ritter (1991) was the first to document evidences of under performance as another empirical anomaly present in the IPO market. Using a sample of 1526 companies that went public in U.S.A. during 1975 to 1984, he showed that in the long run IPO firms significantly under-performed as compared to the already listed firms. Ritter used a set of comparable firms matched by size (market capitalization) and industry as benchmarks. By long run under-performance the author meant that an investment of one dollar in an IPO at the end of first day's public trading and retaining it for the next three years would yield the investor a lower return as compared to the investment in an already listed matching firm.

Loughran and Ritter (1995) tried to address the unresolved issues of Ritter's (1991) paper and shed more light on the issue of long run under-performance of IPOs by taking a longer time horizon (1970-90) and

---

\*Assistant Professor, Department of Commerce, Hindu College, University of Delhi, Delhi.

\*\*Associate Professor, Department of Commerce, Dyal Singh College (Eve.), University of Delhi, Delhi.



found evidences of perverse under performance on the basis of stock returns.

Gade Surendar and Dr. S. Kamaleshwar Rao (2011) Companies raise capital in the primary market by way of an initial public offer, rights issue or private placement. An Initial Public Offering (IPO) is one through which an unlisted comp any makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer's securities. IPOs deepen the market, diversify investor's portfolios, reduce volatility in stock prices, bring domestic investors money into the market and attract Foreign Institutional Investor funds.

S S S Kumar (2010) examined the performance of IPOs issued through the book building process in India over the period 1999-2006. The sample comprises 156 firms that offered their shares through the book building route on the NSE. Upon listing the IPOs on an average offered positive returns (after adjusting for market movements) to investors and all over part of the closing day returns on the listing day were accounted for by the opening returns. In the long run the IPOs offered positive returns up till twenty four months but subsequently they underperform the market.

*Saurabh Ghosh (2005)*: The stock return performance of Indian banks that made initial public offerings (IPOs) in the 1990s is evaluated. The purpose of this evaluation is to investigate the under performance of bank IPOs and to document whether any differences exist between the Public Sector Banks (PSBs) and their private counterparts. An analytical framework is presented and used to study the operating performance of 24 Indian banks. The banks' operating performance was determined by profitability and efficiency measures and by accounting ratios. Analysis suggests that the IPOs of banks in India actually did not underperform in terms of their stock returns and accounting parameters;

instead, some of the key accounting indicators, including operation income and returns on asset, showed signs of improvement in the post-offering years. No significant differences were found between the IPO performance of public sector banks and that of private banks.(SAA)

## OBJECTIVES OF THE STUDY

### 1. Do banking IPOs also have listing gain?

This is studied by analyzing the initial market performance of IPOs in terms of listing gains.

### 2. Do banking IPOs are efficiently priced?

This is studied by analyzing that the IPOs that have given listing gain whether they are giving positive returns or not.

## DATA AND METHODOLOGY

### Data

We have studied the initial public offerings of banking industry and that too for the public sector banks. The sample of our study considers 20 public sector banks that went in for IPOs during the period 1993-2010. The data is obtained from the financial data base of Bombay Stock Exchange, Securities Exchange Board of India (SEBI) monthly bulletins and Rediff.com.

### METHODOLOGY

In order to fulfill the objectives of the study, the listing gains and the holding period returns are calculated. The Listing price is the price on the listing date, the offer price is the issue price and the current market price is the price as on 25/10/2014. The listing gain is the short term gain as on a single date. The holding period return is calculated ignoring the dividend the investors must have received during the holding period.



**Listing gain = ((Listing Price (MINUS) Issue Price))/Issue Price)\*100**

**Holding Period Return= ((Current Market Price (MINUS) Issue Price))/Issue Price)\*100**

We have also calculated the correlation between listing gain and the holding period return in order to see whether the IPOs that have given good listing gain to the investor, are also giving good return to the investors those who are holding it.

## RESULTS AND ANALYSIS

Sr no.	Name of the bank ( at the time of issue)	Opening Date	Offer Price (OP)	Listing Price (LP)	Current Market Price (CMP)	Listing Gain LP-OP (%)	Holding Return CMP-OP (%)
1	ALLAHABAD BANK	23/10/2002	10.00	12.50	75.50	25.00	655.00
2	ANDHRA BANK	14/02/2001	10.00	9.00	112.40	-10.00	1024.00
3	BANK OF BARODA	05/12/1996	85.00	79.50	886.00	-6.47	942.35
4	BANK OF INDIA	21/02/1997	45.00	60.70	267.00	34.89	493.33
5	BANK OF MAHARASHTRA	25/02/2004	23.00	35.00	41.35	52.17	79.78
6	CANARA BANK	18/11/2002	35.00	43.00	386.00	22.86	1002.86
7	CENTRAL BANK OF INDIA	24/07/2007	102.00	132.00	62.30	29.41	-38.92
8	CORPORATION BANK	03/10/1997	80.00	91.20	330.45	14.00	313.06
9	DENA BANK	28/10/1996	30.00	27.00	61.65	-10.00	105.50
10	INDIAN BANK	05/02/2007	91.00	105.00	166.90	15.38	83.41
11	INDIAN OVERSEAS BANK	25/09/2000	10.00	10.10	60.60	1.00	506.00
12	ORIENTAL BANK OF COMMERCE	05/10/1994	60.00	85.00	262.50	41.67	337.50
13	PUNJAB & SIND BANK	13/12/2010	120.00	146.00	58.60	21.67	-51.17
14	PUNJAB NATIONAL BANK	21/03/2002	31.00	40.10	935.45	29.35	2917.58
15	SYNDICATE BANK	25/10/1999	10.00	13.05	117.20	30.50	1072.00
16	UCO BANK	03/09/2003	12.00	17.90	81.25	49.17	577.08
17	UNION BANK OF INDIA	20/08/2002	16.00	17.00	220.90	6.25	1280.63
18	UNITED BANK OF INDIA	23/02/2010	66.00	77.00	40.90	16.67	-38.03
19	VIJAYA BANK	27/11/2000	10.00	9.00	46.80	-10.00	368.00
20	State Bank of India	15/12/1993	100.00	187.50	2582.35	87.50	2482.35

The above table clearly shows that out of total 20 IPOs, 16 IPOs have given listing gain and 4 IPOs have listing loss. All the banking IPOs which have listing gains, their holding period return has increased manifold. Infact the IPOs of Dena Bank, Vijaya Bank, Andhra bank and Bank of Baroda that have listing losses, they have also performed well. Only three public sector banks namely, Central bank of India, Punjab & Sind bank and the United bank of India have negative holding return inspite of having good listing gains.

### CORRELATION BETWEEN LISTING GAIN & HOLDING GAIN

Correlation between listing gain & Holding gain

		Listing gain	Holding gain
Listing gain	Pearson Correlation	1	.317
	Sig. (1-tailed)		.087
	N	20	20
Holding gain	Pearson Correlation	.317	1
	Sig. (1-tailed)	.087	
	N	20	20

The above table clearly shows that there is a positive correlation between listing gain and holding period gain, though the coefficient of correlation is low i.e. 0.31. However the correlation is significant at 10% level of significance.

### CONCLUSION

People usually invest in IPOs with a view to have listing gain i.e the return on IPO scrip at the close of listing date over the allotment price. Most of the PSBs have satisfied the short term investors by giving them listing gains but the investors who are holding those shares are gaining much.

### REFERENCES

- Banerjee Arindam & Kumar B Sravana, (2008) "IPOs in 2007: A Quick look", Portfolio Organizer, pp 15-31.
- Gangadhar, V. and G. Naresh Reddy, (2008) "Book-Building Process: An Efficient Mechanism for Management of Mega Public Issues in India", *Finance India*, Vol XXII NO.3, pp.879-896.
- Gadesurendar and Dr. S. Kamaleshwar Rao (2011) "Retail investor's perception towards initial public offers (ipo) in india- a study on selected cities" *International Journal of Research in IT & Management* Volume 1, Issue 3 (July, 2011)
- Harleen & Gupta Santosh, (2010) "Reforms of Initial Public Offerings: From CCI to SEBI", *The Indian journal of Commerce*, Vol.63, No.1, pp 45-54.
- Kannan R, (2007) "Indian IPO Market: Prospects and Challenges", Icfai book, "Capital market in India: Revitalising the economy" Edited by Asis Kumar Pain.
- Loughran, Tim and Jay R. Ritter, 1995, *The New Issues Puzzle*, *Journal of Finance* 50, 23-51.
- Mehla Sunita and Prasad Hanuman, (2006) "Indian Primary Market: emerging Scenario", *Indian Journal of Accounting*, Vol. XXXVII(1), pp 56-61.
- Reddy G Naresh, (2007) "Indian Primary Capital Market: The Growth Trend", ICFAI Book on 'IPOs: Concepts and Experiences' edited by Arindam Banerjee.



Ritter, J.R. (1991), "The long – run performance of initial public offerings". *Journal of finance*, 46(1), 3-28.

Shelly and Singh Balwinder (2008) "Oversubscription and IPO Underpricing: evidence from India", *The ICFAI Journal of Applied Finance*, Vol.14, No.3, pp 65-73.

Qiming Wang(2010) "*Price clustering of IPOs in the secondary market*" Louisiana Tech University, PO Box 10318, Ruston, LA 71272, USA

S S S Kumar (2010) "*Is Bookbuilding an Efficient IPO pricing Mechanism*"? - *The Indian Evidence International Research Journal of Finance and Economics*, ISSN1450-2887 issue 38 (2010), p.174-188.

Ghosh, Surabh, (2005). *The Post-Offering Performance of Ipos in the Indian Banking Industry* *Applied Economics Letters*, Vol. 12, Issue 2, p. 89-94 2005. Available at SSRN:

<http://ssrn.com/abstract=1498304>

[www.rediff.com](http://www.rediff.com)

[www.moneycontrol.com](http://www.moneycontrol.com)

[www.bseindia.com](http://www.bseindia.com)