IPO Performance and IPO Grading in Indian Markets: An Empirical Study (2008-2012)

Dr. H. N. Shivaprasad*
Mr. Kallanagouda**

1. IPO Grading -Meaning and Importance

SEBI is the first market regulator to introduce the concept of IPO grading. From being an optional process at its inception it has become a mandatory process from May 2007.

IPO grading is a service that provides an 'independent' assessment of fundamentals regarding quality of equity shares offered to aid comparative assessment that would prove useful as an information and investment tool for investors. This assessment is carried out as already mentioned, by the independent credit rating agencies. Moreover, such a service is particularly useful for assessing the offerings of companies accessing the equity markets for the first time where there is no track record of their market performance. This way the investor, by placing reliance on the IPO grading, can decide whether the particular offer has potential to bring him returns or not. The grades assigned represent a relative appraisal of the 'fundamentals' of that issue in relation to the universe of other listed equity securities in India.

The grade, reflective of the 'issue quality', is based on an indeterminate and non-quantifiable concept of 'fundamentals of the issuer' and is an outcome of the assessment of factors which are in turn only qualitative guides to the security being graded. This grade also helps in determination of the price of the IPO. Providing an exhaustive list of factors which are influential in assigning the grades is a task too tedious and impractical, but an estimation of the underlying strength of the security requiring gradation has to be based on certain core factors which are pragmatic to be identified. The factors identified by SEBI in this regard are;

(1) Business prospects and competitive position of the company;
(2) Risks and prospects of new projects;
(3) Company's financial position;
(4) Quality of management;
(5) Corporate governance practices; and
(6) Compliance and litigation history.

While growth prospects of the industry and financial strength are some of the quantitative parameters, qualitative parameters such as management capability also provide critical input in determining a grade. Furthermore, this grade will not be a recommendation to invest in or sell- off or hold onto a security which is a security-specific assessment essentially based on liquidity and demand of security. As IPO grading discounts the price of the IPO as a factor, it will merely aid the naïve investor in forming an independent opinion in making the investment decision by providing pure information regarding the relative strength of an issue. The IPOs are assigned different grades on the basis of fundamentals on a scale of 5 as follows:

Grade	IPO with
1	Poor Fundamentals
2	Below Average Fundamentals
3	Average Fundamentals
4	Above Average Fundamentals
5	Strong Fundamentals

The issuer is provided with an option to choose the CRA to get the IPO graded however, once grading is done he has no option to reject the particular grade. In fact he can get another agency to grade it as well but both the grades so assigned need to be mentioned in the prospectus.

2. Introduction

2.a IPO Grading

IPO grading is the grade assigned by a Credit Rating

* Director, Department of Management Studies, Reva ITM, Bangalore
**Research Scholar, Department of Management Studies, Reva ITM, Bangalore

Agency registered with SEBI, to the initial public offering (IPO) of equity shares or any other security which may be converted into or exchanged with equity shares at a later date.

IPO grading is aimed at providing an independent and relative assessment of fundamentals of the IPO issue. The assessment is in relation to the universe of other listed equity securities in India and expressed as a symbol. It is a one-time exercise done at the time of issuance. The grade is independent and unbiased because it comes from an independent rating & research agency - an entity that is not connected with the placement of the issue and has an ongoing incentive to maintain its reputation for independence. Grading is mandatory for all issuers who file their offer documents with SEBI after April 30, 2007.

The Grade assigned to any individual IPO is a symbolic representation of a credit rating agency's assessment of the "fundamentals" of the issuer concerned relative to other listed securities. IPO grading has been introduced as an endeavor to make additional information available for the investors in order to facilitate their assessment of equity issues offered through an IPO.

A IPO Grading is not a recommendation to invest or not invest in the graded instrument. IPO grading is not a comment on the issue price of the shares being offered, likely listing price or likely movement of price post listing. IPO grading is not a valuation of the equity offering. IPO grading is not an assessment of the market risk associated with equity investments.

2.b IPO Grade is not Investor Recommendation

IPO grading and investor recommendations are different. Investment recommendations are expressed as 'buy', 'hold' or 'sell' and are based on an assessment of the fundamental factors, the current pricing of the security and the likely appreciation on price over a specific time horizon. Thus, investment recommendations carry out a detailed evaluation of the 'market factors' (liquidity, demand supply, valuation etc.) as well. On the other hand, IPO grading is a relative comparison of the assessed fundamentals of the graded issue and does not take cognizance of the price of the security, its valuation compared to peers or the possible gains over a specified time period. Rather, it is designed to be only an additional input to the investor in his decision making process.

2.c Need for IPO Grading

An investor in a hitherto unlisted company may either have limited access to information on it, or may find it challenging to appropriately assess, on the basis of the information available, its business prospects and risks. An IPO Grade provides an additional input to investors, in arriving at an investment decision based on independent and objective analysis. Grades, simply stated are simple, objective indicators of the relative fundamental positions of the issuers concerned.

IPO Grading is NOT a recommendation to buy sell or hold the securities Graded. Similarly, it is NOT a comment on the valuation or pricing of the IPO Graded nor is it an indication of the likely listing price of the securities graded.

The IPO grading is a comment on the "fundamentals" of the company being graded. All other things remaining equal, an entity with stronger fundamentals and better growth prospects should be able to generate higher shareholder returns related indicators in the long run.

2.d Issues / Factors Considered

The emphasis of the IPO Grading exercise is on evaluating the prospects of the industry in which the company operates its competitive strengths that would allow it to address the risks inherent in the business(es) and effectively capitalize on the opportunities available as well as the company's financial position.

In case the IPO proceeds are planned to be used to set up projects, either Greenfield or Brownfield, Credit rating agencies evaluate the risks inherent in such projects, the capacity of the company's management to execute the same, and the likely benefits accruing from the successful completion of the projects in terms of profitability and returns to shareholders. Due weightage is given to the issuer company's management strengths and weaknesses and issues, if any, from the corporate governance perspective.

Accordingly, IPO Grading methodology examines the following key variables:

- Business and Competitive Position
- New Projects-Risks and Prospects
- Financial Position and Prospects
- Management Quality
- Corporate Governance practices
- Compliance and Litigation History

2.e Grades

IPO fundamentals would be graded on a five point scale from grade 5 (indicating strong fundamentals) to grade 1 (indicating poor fundamentals). The grade would read as: " Rating Agency name " IPO Grade 1 viz ICRA IPO Grade 1.

The full scale is as follows:

ICRA IPO Grade 5:	Strong fundamentals
ICRA IPO Grade 4:	Above -average fundamentals
ICRA IPO Grade 3:	Average fundamentals
ICRA IPO Grade 2:	Below-average fundamentals
ICRA IPO Grade 1:	Poor fundamentals

2.f Objectives behind IPO Grading

1. IPO grading helps the prospective investor to take better decisions because the unlisted companies do not carry any track record that can help the investor to assess the market performance. This IPO grading is like an additional input to the investors.

2. Investors in unlisted companies have limited access to the information about business prospects, risks associated etc. Even though that information is given in the prospectus, investors may be unable to analyze that information. But the IPO grading scale as displayed in the prospectus is easily understood by everyone.

3. The grading scale gives a clue about the credibility of the issuer company.

4. It helps in saving resources of investors, as they do not have devoted their own time in analyzing or interpreting the fundamentals of the company.

5. IPO Grading helps the issuing company in establishing credentials and raising funds at attractive prices by creating an informed positive image associated with different levels of grading and superior grading help the IPO Company to increase the extent of its subscription.

3. Background to the Study

This study on IPO Performance Evaluation of IPO Credit Rating has been undertaken to find out the relationship between the IPO grades and IPO performance in the Indian Markets during the period 2008 to 2012.

This study focuses on analyzing the importance of grading the IPOs and considers the possibility of using the IPO grades as an important decision tool for making the decisions related to investment in IPOs. The results of the study it is hoped will enable the investors to make rational investment in IPOs by considering IPO grades.

4. Literature Review

Most of the researches related to IPO have hitherto focused on the issues of listing gain, short run gain, long run gain, under pricing, overpricing and underperformance. Very little research, if any, has been done on the aspects relating to IPO grading.

Deb & Marisetty (2007) studied the efficacy of IPO grading. They addressed the following specific questions:

- Is information asymmetry in the form of under pricing or overpricing is lower in post-grading regime compared to pre-grading regime?
- Do retail investors respond to quality conveyed through IPO grading?
- Can IPO grading predict post-IPO Secondary market liquidity and risk?

To test for above questions, they used a sample of 159 Indian IPOs that were issued during 2006-08. Since the IPO grading became mandatory requirement on 1st May, 2007 the data was taken for IPOs between April 2006 & August 2008. Out of total 159 IPOs, 115 are ungraded and 44 are graded. The usefulness of IPO grading was analyzed using multivariate regression model.

Initial Return is defined as:

IR = (Listing Price / Offer Price) - 1

The usefulness of IPO grading was analyzed using multivariate regression model:

$$IR = \alpha+\beta_1 \, Grad\_dummy +” \beta_i X_i$$

Where ,

IR = Initial Return

Variable grade dummy takes value 1 for graded IPO and 0 for other IPOs.

X_i = IPO specific variable- issue size, method, total subscription, pre-issue total assets, DE, RONW etc.

The purpose of IPO grading is to bring down the information asymmetry. We can expect the graded IPOs have lower under pricing than ungraded ones. The impact of objective certification through IPO grading on investor interest in primary market was measured through:

$$\textbf{Subscription} = \alpha + \beta_1 \textbf{IPO grade} +\text{''}\ \beta_i X_i$$

The post-listing liquidity and risk of IPOs were examined using the following model:

The results showed that:

- The under pricing of IPO is lower in post grading regime.
- The retail investors respond to IPO grading quality.
- Better graded IPOs attract higher liquidity and exhibit lower risk.

The researchers have proved IPO grading to be an effective certification mechanism in Indian markets.

Anand & Mahajan (2009) critically analyzed the various dimensions of IPO grading from qualitative and quantitative angles. To make quantitative analysis, they have explained with the help of example that the companies which were given low grade have risen much higher than their issue price whereas the IPOs on the higher side of grading are much less than their issue price. Thus the analysis done reveals the contradictory results between IPO grading and their performance.

Deb and Marisetty (2010) in their paper " Information content of IPO grading" argue that objective, independent and exogenous certifying mechanism like IPO Grading provides a better opportunity to test the well established certification hypothesis, especially in the context of emerging markets. Using a sample of 163 Indian IPOs they tested the efficacy of IPO grading mechanism. They found that IPO grading decreases IPO under pricing and positively influences demand of retail investors. Grading reduces secondary market risk and improves liquidity. However, grading does not affect long run performance of the IPOs. IPO grading successfully capture firm size, business group affiliation and firm's quality of corporate governance. Their findings imply that, in emerging markets, regulator's role to signal the quality of an IPO contributes towards the market welfare.

Rathod (2006) studied the IPO grading system and analyzes the related issues like rationality of equity grading, disconnection between offer price and assigned grading.

Chauhan Ajay Kumar and Kavidayal B.D (2010) in their paper "Significance of IPO grading in Indian stock market: Empirical evidence" investigated the relevance of IPO grading on under pricing, long-term returns liquidity, volatility and the P/E ratio of the companies. For the purpose of the study, they selected 83 IPOs which were issued after May 2007 through National Stock Exchange (NSE) and which possessed IPO grades at the time of issue. The IPO's of different IPO grades were analyzed in terms of under pricing, liquidity, P/E ratio, volatility and long term returns using t-test and regression analysis. Their results indicate that the QIBs consider IPO grading significantly and hence also affects the overall subscription of the IPO. The Listing Day liquidity of higher graded IPOs is low but commands better liquidity in the long term. Long-term performance of the higher graded IPO is better than low graded IPO's. However, the IPO Grading in not relevant in explaining the Listing Day returns. Also, the IPO grading has no impact on the subscription behavior of retail investors.

Arif Khursheed et al (2011) in their paper "Grading, transparent books and initial public offerings" found that though IPO grading was introduced to help retail investors, it is instead being used by institutional investors to make their investment decisions. However, the benefits of grading do pass on to the retail investors, albeit indirectly. We show that to retail investors, institutional bids in the early days of the book building exercise offer a much coherent signal about the quality of the IPO as compared to IPO grading. Known certification mechanisms such as the reputation of the sponsor or VC affiliation are of limited importance in the Indian IPO market.

Joshy Jacob and Sobesh Kumar Agarwalla (2012) in their paper "Mandatory IPO Grading: Does it Help Pricing Efficiency?" examined the market impact of a unique IPO certification in India that is the mandatory grading of IPOs by a credit rating agency. The grading was expected to improve the IPO pricing efficiency by providing comprehensive issue-related information to the market, especially to the retail investors. Their results indicate that grading has only a limited influence on the IPO demand of retail and institutional investors. The low grade issues appear to have weaker demand from investors relative to the ungraded IPOs. But they found no evidence to support IPO pricing improvement due to the introduction of IPO grading. This is contrary to the evidence reported by some earlier studies. The results of this study suggest the failure of grading as an IPO certification.

K. V. Bhanu Murthy & Amit Kumar Singh (2012) in their research paper "Who does IPO Pricing help?" examine:

- Whether IPO grading is of any help.
- Does IPO grading have any relationship with performance of the IPO?

They used a logistic regression model to test the basic hypothesis, with the help of data on 89 IPOs from the Indian stock market. The study uses both ex-post and ex-ante information on which IPO pricing is based. The primary question was clearly answered in the negative. IPO grading is not of any use to either to the investor, the IPO or the IPO market. Since post listing gain is not related to grading it does not help the market. Finally, since grading does not lead to any great benefit in terms of oversubscription it does not help the IPO issuer. Whatever little gains are there are marginal and uncertain.

The data was taken for 89 IPOs from the year 2006 to 2009. They used Logistic Regression Model to test for the relationship between grading of IPOs and performance variables of the company. The logistic regression model was used where they took IPO grading as dependent variable and short run gain, oversubscription as independent variable. The independent variables consist of pre-listing ex-ante information, as well as, post-listing ex-post information. They had taken 89 IPOs of different companies from the year 2006 to 2009. The data was divided into two categories

a) 26 IPO companies who 6 IPO companies who are graded by different credit rating agency are taken as 1

b) 63 IPO companies who are not graded by any rating agency are taken as 0

Their results showed that shows that grading of IPO cannot be associated with short run gain. Companies which do not have grading have a higher short run gain. They perform better in the ex-post analysis (after listing), although not significantly so. They also bound that oversubscription of IPO is not associated with grading. We cannot say for sure that a company that has got good grade will be more oversubscribed and vice versa. The gain is very marginal, if any. It is only 0.23 of one per cent!

Objectives of the Study

The main objective of this study is to examine:

- Whether IPO grading is of any help.
- Does IPO grading have any relationship with performance of the IP0?

The objectives are, therefore,

1. To Study the performance of the IPO's listed on NSE from 2008 to 2012 in terms listing gains and performance of the IPOs subsequently in the secondary market over time.
2. To compare the performance of IPOs based on the IPO grades given at the time of issue.
3. To suggest to investors strategies to invest in IPOs based on IPO grades.

Methodology

Key data on the IPO's were retrieved from NSE website. Totally 131 IPO's issued and listed during the period 2008 to 2012 were considered for the study. All the 131 IPO's were considered for analysis. The issue price and the number of times the issue was subscribed were retrieved from http:// www.nseindia.com, http:// www.chittorgarh.com. The share price (open, high, low, and closing price) of 131 IPO's was obtained from www.nseindia.com. www.moneycontrol.com.

All 131 IPO's were considered for the study. Firstly the 131 IPO's sorted based on the grades given by the credit rating agencies. IPO's listed in the NSE are rated by various credit rating agencies such as CARE, CRISIL, and ICRA to name few.

IPO'S were so rated based on their strengths in fundamentals and usually a rating of 1 to 5 is given indicating poor fundamentals (1),

Below Average Fundamentals (2), Average Fundamentals (3) Above Average fundamentals (4) and strong fundamentals (5)

In order to measure the Listing Gain obtained by the investors on the first day we used the method given below:

$$Listing\ Gain = (Listing\ Price - Issue\ price/Issue\ price) * 100$$

In order to measure Nifty return we used the method given below

$$Rt = \frac{Pt - (Pt - 1)}{(Pt - 1)} * 100$$

Where R_t is the return obtained in the period t, P_t and P_{t-1} are the daily closing prices of the stocks at time t and t-1 respectively.

Market gain was calculated as the return for the IPO from the date of listing till 31st December, 2012 or the last date of trading in the year 2012.

$$Mt = \frac{LPt - (Pt - 1)}{(Pt - 1)} * 100$$

Where, M_t is the market return during the period t, LP_t and P_{t-1} are the daily closing prices of the stocks at time t and t-1 respectively.

Analysis involved the following calculations:

To measure and analyses:

a) Listing gain

$$Listing\ Gain = (Listing\ Price - Issue\ price/Issue\ price) * 100$$

b) Standard deviation of stock price.

$$s = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n - 1}}$$

c) Correlations between Listing gain and Nifty gain.

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{[n\Sigma x^2 - (\Sigma x)^2][n\Sigma y^2 - (\Sigma y)^2]}}$$

7. Analysis & Interpretation

ble No 1 Analysis of Listing Gain and Market Gain Based on IPO Grades for year 2008

c) Correlations between Listing gain and Nifty gain.

SL.NO	GRADING	Listing Gain	Market Gain
1	1	0	0
2	2	0	0
3	3	13.04	66.33
4	4	8.88	-85.52
5	5	0	0
6	NOT GRADED	6.4	-56.95

Analysis and Interpretation

By analyzing the Table No 01 for the listing gain and market gain in the year 2008 we can infer that IPOs with average grade that is those with average fundamentals (Grade3) performed better and gave 13.04% of listing return and 66.33% of market return as compared with IPOs with above average fundamentals (Grade 4) which yielded 8.88% of listing gain and -85.52% of market return.

The above analysis indicates that average fundamental IPOs (Grade 3) performed better but IPOs with above average fundamentals (Grade 4) failed to perform in market.

Above analysis also reveals that IPOs which were not graded gave a gain of 6.4%, and market loss of -56.95%, which clearly indicates that IPOs which were not graded exhibit higher volatility in the market.

Graph No 1 Showing Listing Gain and Market Gain Based on IPO Grades for year 2008

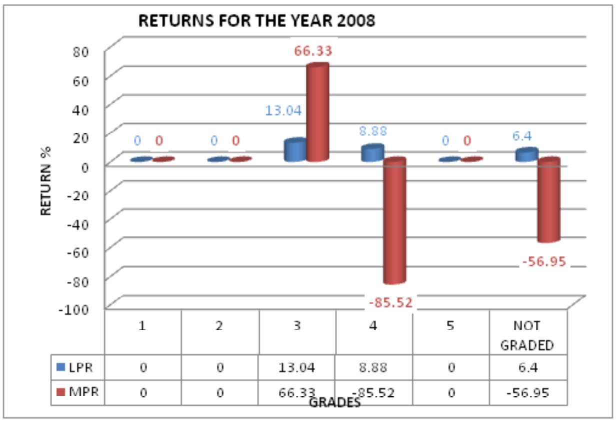


Table No 02 Analysis of Listing Gain and Index Gain Based on IPO Grades for year 2009

SL.NO	GRADING	Listing Gain	Market Gain
1	1	0.58	-73.39
2	2	35.47	-60.21
3	3	5.68	-18.28
4	4	10.25	-24.06
5	5	0	0
6	NOT GRADED	0	0

Analysis and Interpretation

From the analysis of Table No 02 of listing gain & market gain in the year 2009 we can infer that average graded IPOs (Grade 3) and above average graded IPOs (Grade 4) yielded listing gain of 5.68% and 10.25% and those IPOs with below average fundamentals (Grade 2) and poor fundamentals (Grade 1) scripts gave return of 35.47% and 0.58%.

Analyzing market return of the IPOs we find that Average fundamental (Grade 3) and above average fundamental (Grade 4) scripts resulted in loss of -18.28 and -24.06% whereas below average fundamental (Grade 2) and poor fundamental (Grade 1) scripts incurred huge loss of -60.21% and -73.39%.

The above analysis shows that IPOs which are with poor fundamentals (Grade 1) and below average fundamentals (Grade 2) are poor in generating return. IPOs of average fundamental (Grade 3) outperformed in terms of both listing gain and market gain. It is advisable to choose average graded stocks for investments for better results and also to minimize the abnormal price fluctuations.

Graph No 02
Analyzing Listing Gain and Market Gain Based on IPO Grades for year 2009

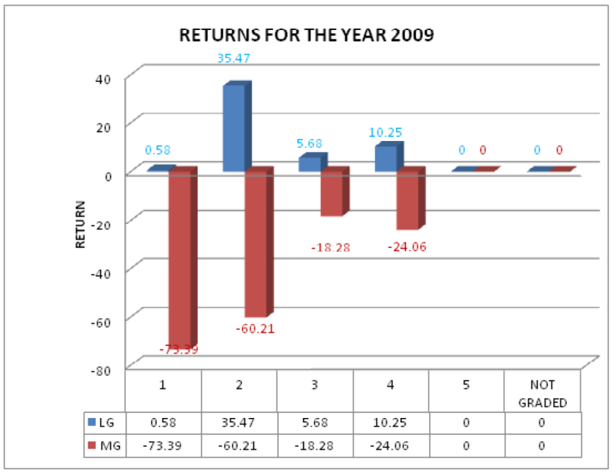


Table No 03
Analyzing Listing Gain and index Gain Based on IPO Grades for year 2010

SL.NO	GRADING	Listing Gain	Market Gain
1	1	0	-80.06
2	2	-2.82	-66.17
3	3	7.97	26.42
4	4	10.72	-34.64
5	5	-10.45	20.13
6	NOT GRADED	46	-61.76

Analysis and interpretation

By the analysis of Table No 03 for listing gain & market gain in the year 2010, we can infer that average graded IPOs (Grade 3) and above average graded IPOs (Grade 4 & Grade 5) yielded listing gain of 7.97%, 10.72% and -10.72%. In contrast, IPOs with below average fundamentals (Grade 2) and poor fundamentals (Grade 1) gave return of -2.82% and 0%.

Analyzing market return of the IPOs we find that IPOs with average fundamentals (Grade 3) and above average fundamentals (Grade 4 & Grade 5) yielded in gain of 26.42%, 20.13% and loss of -34.64% respectively. Whereas, IPOs with below average fundamentals (Grade 2) and poor fundamentals (Grade 1) scripts incurred huge loss of -66.17% and -80.06%..

Above analysis reveals that IPOs graded as those with poor fundamentals (Grade 1) and below average fundamentals (Grade 2) yield poor return and IPOs of average fundamental (Grade 3) outperformed in terms of listing gain and market gain and it is advisable to choose average graded (3) IPOs for investments.

Graph No 03

Showing Listing Gain and Market Gain Based on Grading for year 2010

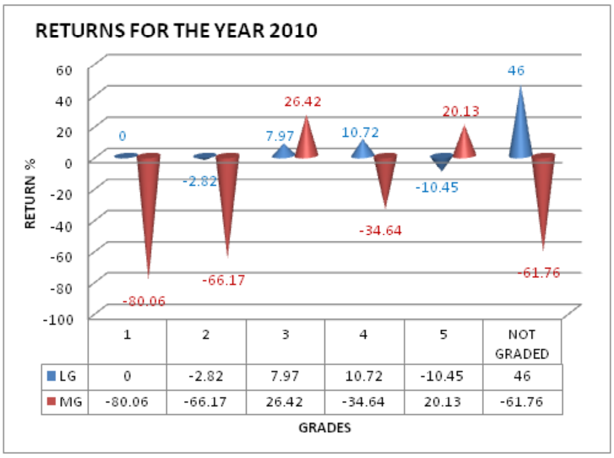


Table No 04

Analyzing Listing Gain and Index Gain Based on Grading for year 2011

SL.NO	GRADING	Listing Gain	Market Gain
1	1	-3.72	153.14
2	2	-1.74	-29.13
3	3	1.5	10.75
4	4	6.95	-2.79
5	5	-3.55	70.38
6	NOT GRADED	0	0

Analysis and Interpretation

By analyzing the Table No 04 for listing gain & market gain in the year 2011, we can infer that companies average graded IPOs (Grade 3) and above average graded IPOs (Grade 4 & Grade 5) yielded listing gain of 1.5%, 6.95% and -3.55% respectively. IPOs of below average fundamentals (Grade 2) and poor fundamentals (Grade 1) resulted in loss of -1.74% and -3.72%.

While analyzing market return of the scripts, we find that IPOS with average fundamentals (Grade 3) and above average fundamentals (Grade 4 & Grade 5) resulted in gain of 10.75%, 70.38% and loss of -2.79% respectively. Whereas, IPOs with below average fundamentals (Grade 2) and poor fundamentals (Grade 1) incurred huge loss of -29.13% and huge gain of 153.14%.

The above analysis shows that scripts graded with poor fundamentals (Grade 1) and below average fundamentals (Grade 2) are poor in generating return and they exhibited more volatility in price movement and scripts of average fundamental (Grade 3) outperformed in terms of listing gain and market gain and it is advisable to choose average graded (Grade 3) stocks for investments.

Graph No 04 Showing Listing Gain and Market Gain Based on IPO Grades for year 2011

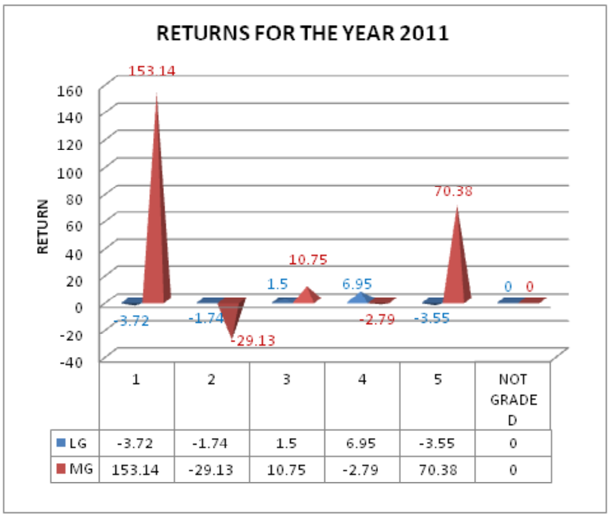


Table No 05 Analyzing Listing gain and Index Gain Based on Grading for year 2012

SL.NO	GRADING	Listing Gain	Market Gain
1	1	0	0
2	2	0	0
3	3	1.48	19.16
4	4	-1.22	34.12
5	5	0	0
6	NOT GRADED	25.33	-1.53

Analysis and Interpretation

By analyzing the Table No:05 for listing gain and market gain of IPOs, we can infer that IPOs which were graded as those with average fundamentals (3) and with strong fundamentals (4) gave listing gain of 1.48% and loss of -1.22% and not graded IPOs gave return of 25.33%. Market gain of average fundamentals (3) and above average fundamentals (4) yielded return of 19.16% and 34.12%.

Analysis shows that Average fundamental (grade 3) and Above average fundamentals (grade 4) performed better in the market compared to primary market whereas not graded stocks were performed in the secondary market.

Graph No 05 Showing Listing Gain and Market Gain Based on IPO Grades for year 2012

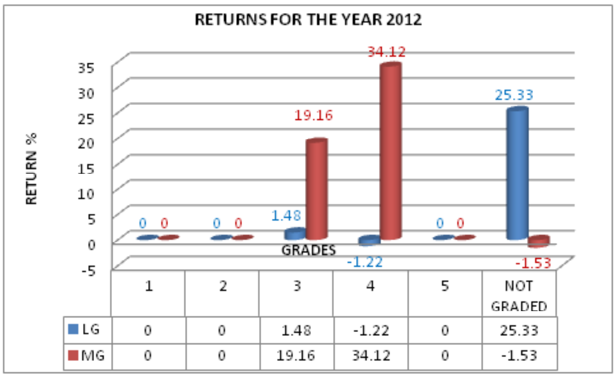


Table. 6 Analyzing the listing gain and market gain based on IPO grades from year 2008-12.

SL.NO	GRADING	Listing Gain	Market Gain
1	1	-1.96	55.1
2	2	1.92	-45.01
3	3	6.26	20.99
4	4	8.25	-22.62
5	5	-5.78	36.88
6	NOT GRADED	9.48	-54.28

Analysis and Interpretation

Analyzing the above Table No: 6, we can infer that listing gain and market gain of IPOs which are graded as those with average fundamental (Grade 3) and those with above average fundamentals (Grade 4 & Grade 5) yielded a listing return of 6.26%, 8.25%, and loss of -5.78% respectively. In contrast, IPOs with average fundamentals (Grade 2) and IPOs with poor fundamentals (Grade 1) yielded a listing gain of 1.92%, and loss of -1.96%. Market return for the IPOs with average fundamentals (Grade 3) and IPOs with above average fundamentals (Grade 4 & Grade 5) resulted in gain of 20.99%, 36.88% and loss of -22.62. IPOs of below average fundamentals (Grade 2) and poor fundamentals (Grade 1) incurred a loss of -45.01%, and gain of 55.10%.

Study shows that it is advisable for the investors to avoid IPOs with poor fundamentals and IPOs with below average fundamental scripts for the investments and consider IPOs with average fundamentals for the investment as they generated decent return over the period.

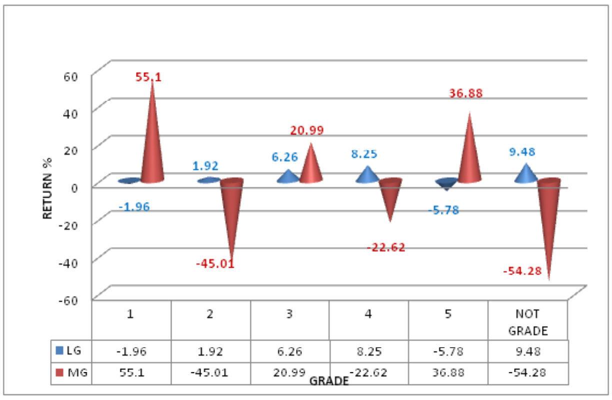


Table. No.7

Analyzing Listing Gain and Index Gain during the Year 2008-12.

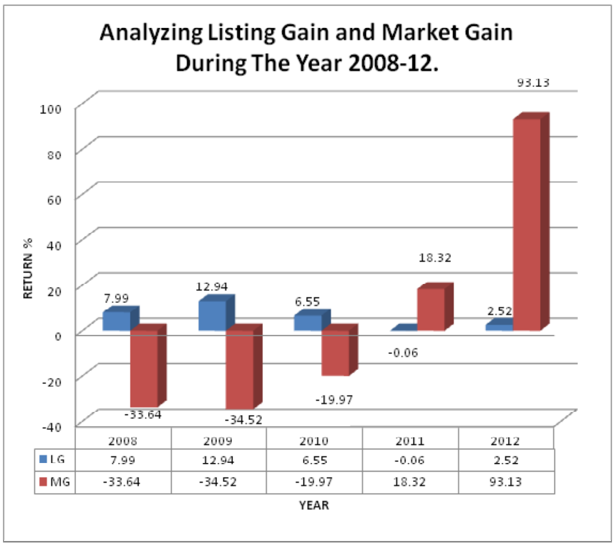
SL.NO	YEAR	Listing Gain	Market Gain
1	2008	7.99	-33.64
2	2009	12.94	-34.52
3	2010	6.55	-19.97
4	2011	-0.06	18.32
5	2012	2.52	93.13

Analysis and Interpretation

By the analysis of the Table No.07 we can infer that IPO's issued in the period 2008 - 12 resulted in listing gain of 7.99%, 12.94%, 6.55%, -.06% 2.52% in the year 2008, 2009, 2010, 2011, 2012 respectively.

The analysis of the market return for the period 2008-12 , we find that the IPOs which were issued in the year 2008, 2009, 2010 incurred loss of -33.64%, -34.52%, -19.97% respectively. The IPO's which are issued in the year 2011, 2012 gave decent return of 18.32% and 93.13% respectively.

Above analysis show that most of IPO's did not perform well in the secondary market. This could be attributed to probable overpricing of IPOs by issuing companies or could be because of generally weak / negative macro-economic conditions which were prevailing during the periods of bad performance.



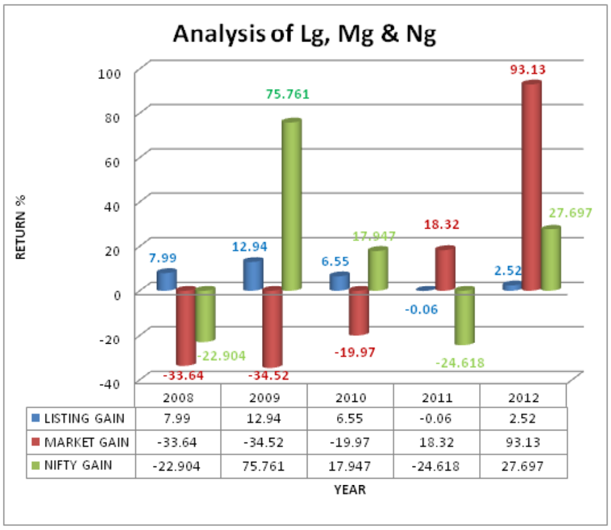
Analysis of Listing Gain, Market Gain for IPOS & Nifty Gain

YEAR	LISTING GAIN	MARKET GAIN FOR IPOs	NIFTY GAIN
2008	7.99	-33.64	-22.904
2009	12.94	-34.52	75.761
2010	6.55	-19.97	17.947
2011	-0.06	18.32	-24.618
2012	2.52	93.13	27.697
MEAN	**5.988**	**4.664**	**14.7766**
STDEV	**2.452246**	**53.903**	**41.43624**
Correlation Between Listing Gain & NIFTY Gain	**0.652047**		
Correlation Between Market Gain of IPOs & NIFTY Gain	**-0.0469**		

Table No 08 shows that correlation between the Listing gain and Nifty gain was positively correlated that is +0.652047, and correlation between Market gain and Nifty gain was Negative that is -0.0469.

Mean return for listing gain and market gain and Nifty gain was 5.988, 4.664 and 14.7766 respectively. Standard deviation of Listing gain, market gain and nifty gain was 2.452, 53.903 and 14.776 respectively. Analysis shows that Market gain and Nifty gain had high degree of volatility as measured by standard deviation.

We find that the Listing gain and Market gain of IPOs are positively correlated, whereas Market gain of IPOs and nifty gain are showing negative correlation. The negative correlation between market gain and nifty gain could be because the initial euphoria surrounding the issue listing may decline over time.



8. Findings

The major findings of this study are:

- IPO Grading has implication on selection of IPOs.
- Grading can be used as a basis for minimizing uncertainty.
- Average fundamental scripts (Grade 3) have out performed other grade IPOs both in terms of listing gain and in terms of market gain.
- IPOs with below Average fundamentals (Grade 2) & Poor fundamentals (Grade 1) have shown weak performance in terms of market gain.
- IPOs with above average fundamental (Grade 4, Grade 5) were also found to be generally weak in generating returns. This could be because they may

have been initially overpriced at the time of issue.

* IPOs with below average fundamentals (Grade1 and Grade 2) tend to exhibit high price volatility.
* Index return and Listing return have exhibited positive correlation,
* Index return and Market return of IPOs have exhibited negative correlation.

9. Practical Implications of the Study

The following are the practical implications of the present study:

- IPO grading could be used an important tool by investors for making investment decisions in the IPOs.
- Based on the study it is suggested that investors choose Grade 3 IPOs i.e those IPOs with average fundamentals for investments.
- The investors are suggested not to select IPOs with Poor fundamentals (Grade1) and IPOs with below average fundamentals (Grade2) for investments in IPOs.
- The above average fundamental IPOs (IPO Grade 4, 5) could be used for to get high listing gains only as these IPOs seem to lose their gains over the following few months.

10. Conclusion

IPOs are one of the cheapest methods available for the company to raise fund to meet its long term financial requirement and IPOs are one of the attractive avenues for the long term investment from the view of investors. While considering investment in IPOs the investors must consider various factors parameters one of them is the IPO grades given published credit rating agencies.

The present study shows that IPO grading has an important significance while considering investment alternative and it is found that IPOs which have good fundamentals generated good gains at the time of listing and also good market gain over a period of time in the secondary market where as IPOs with poor fundamentals performed very are poorly in generating return and their prices were also more volatile.

The present study shows that IPOs which have average fundamentals (Grade 3) performed very well in comparison with IPOs with above average fundamentals (Grade 4, Grade 5). IPOs with poor fundamentals and below average fundamentals (Grade 1 & Grade 2) failed to provide good market gains to investors. Therefore, it is suggested to the investors that it is better to invest in IPOs which have average fundamentals (Grade 3) than those with above average fundamentals (Grade 4 & Grade 5) and that one should avoid IPOs which have poor fundamentals and IPOs with below average fundamentals (Grade 1 & Grade 2).

References

Bhanumurthy K V and Amit Kumar Singh (2012), "IPO Pricing : Who Does IPO Grading Help?" paper presented at the World Finance & Banking Symposium - 2012, held at Shanghai, China, December 17 -18, 2012.

Chauhan Ajay Kumar and Kavidayal B.D (2010), "Significance of IPO grading in Indian stock market: Empirical evidence", LBS Journal of Management & Research, Volume : 8, Issue : 2, Pages 32-41 (Print ISSN : 0972-8031. Online ISSN : 0974-1852)

Deb Saikat S and V B. Marisetty (2010) Journal of Banking & Finance Volume 34, Issue 9, September 2010, Pages 2294-2305.

Joshy Jacob & S K Agarwalla (2012) Mandatory IPO Grading: Does It Help Pricing Efficiency? W.P.No.2012-12-07,IIM-Ahmedabad, December, accessed www.iimahd.ernet.in/assets/ snippets /…/ 5627045722012-12-07.pdf?

Mallika Anand and Kartikey Mahajan(2009), "Credibility of the IPO Grading: Time to Rethink", Corporate Professionals Today, Vol. 14, p. 620, 2009.

Khurshed, A., Paleari, S., Pande, A., and Vismara, S. (2011), "Grading, Transparent books and IPOs - online paper. http://www.unibg.it /dati/persone/1823/4211-grading%20paper.pdf

Rathod G.D (2006) "IPO Grading: A new Dimension in Capital Market Reforms" The ICFAI University Press.

Sanjay Poudyal (2008) "Grading Initial Public Offerings (IPOs) in India's Capital Markets A Globally Unique Concept" W.P. No.2008-12-08

Saikat S Deb, Vijaya B Marisetty "Information Content of IPO Grading" W.P. National Institute of Securities Market (NISM), India

Tarun Jain and Raghav Sharma "Mandatory IPO Grading: Reflections from the Indian Capital Markets" Electronic copy available at: http: // ssrn.com / abstract=1113225.