

IPO PERFORMANCE ANALYSIS: BEFORE VS AFTER LISTING

Nivedita B.K*

ABSTRACT

This study explores the performance of Initial Public Offerings (IPOs) in the Indian stock market, both before and after their listing. The paper compares listing-day gains, short-term performance (up to six months), and the long-term stability of IPOs using secondary data. It also examines the relationship between subscription levels, market sentiment, and actual post-listing performance. The findings reveal a consistent trend of initial overpricing, often followed by corrections in long-term returns. The study contributes to the ongoing discussion about IPO pricing efficiency, investor behavior, and sectoral performance trends in emerging markets.

KEYWORDS: *IPO, Listing Performance, Indian Stock Market, Short-term Gains, Aftermarket Returns, Pricing Efficiency, Investor Sentiment, Subscription Levels, Post-Listing Volatility, Sectoral Trends, Retail Investors, IPO Underpricing, Behavioral Finance, Market Correction.*

Introduction

Initial Public Offerings (IPOs) serve as a crucial channel for companies to access public capital markets. In India, the IPO landscape has evolved significantly in recent years, with a surge in both the volume and variety of companies going public. From tech start-ups like Zomato to large public-sector undertakings like LIC, IPOs have attracted intense media attention and investor interest. However, while IPOs often debut with fanfare and enjoy substantial listing gains, the sustainability of these returns remains questionable. This paper investigates whether IPOs truly create long-term value for investors or are simply a short-term speculative opportunity.

The study focuses on IPOs listed on Indian exchanges (NSE and BSE) between 2019 and 2023—a period marked by economic recovery, digital acceleration, and volatile investor sentiment. The central question is: Do IPOs live up to their initial hype in the long run?

Initial Public Offerings (IPOs) serve as a gateway for companies to raise capital from the public by listing on stock exchanges. IPOs are often accompanied by considerable excitement and speculation, leading to volatility in early performance. This paper examines how IPOs perform before listing, on the day of listing, and in the short-to-medium term afterward. The central aim is to assess whether IPOs offer sustainable returns or merely short-lived gains driven by hype.

In recent years, the Indian IPO market has seen a surge in participation, especially from retail investors, driven by rising financial awareness, digital access to stock trading platforms, and favorable economic conditions. Despite this enthusiasm, many IPOs exhibit a pattern of initial overpricing followed by gradual correction—a phenomenon that raises questions about pricing efficiency and long-term value creation.

* Assistant professor, Master of Commerce, BLDE Association's Smt Bangaramma Sajjan Arts, Commerce and Science College for Women Vijayapura, Karnataka, India.

Moreover, the role of underwriters, subscription levels, and sectoral characteristics has become increasingly significant in determining IPO outcomes. The performance of IPOs also reflects broader market sentiment and macroeconomic factors such as inflation, interest rates, and global financial trends. By studying IPOs listed between 2019 and 2023, this paper aims to offer a balanced perspective on the realities of IPO investing in India, bridging the gap between investor expectations and actual returns.

The study also aims to assist investors, researchers, and financial advisors in understanding the true nature of IPO movements, beyond media-driven narratives. By bridging the gap between theoretical research and real-world IPO behavior, this paper attempts to add practical value to the field of capital markets.

Literature Review

Numerous studies have examined IPO behavior across global and emerging markets. Ritter (1991) highlighted that IPOs in the U.S. tend to underperform in the long run. Chahine (2008) emphasized the role of underpricing as a deliberate strategy to attract investor interest, particularly in information-asymmetric markets.

Loughran and Ritter (2004) found that IPO underpricing increased over time, partly due to changes in market structure and the growing influence of institutional investors. Aggarwal et al. (1993) examined IPOs in Latin America and found similar post-listing underperformance patterns.

Bansal and Khanna (2012) found that IPOs in India exhibit significant first-day returns but underperform in the long run, especially in volatile market conditions.

Aggarwal and Rivoli (1990) observed that investor over-enthusiasm often leads to short-term price surges that later normalize, indicating behavioral biases in IPO pricing.

Madhusoodanan (2003) suggested that sector-specific IPOs, particularly in the tech and finance sectors, perform better due to higher growth expectations and investor optimism.

In the Indian context, Banerjee et al. (2011) identified investor sentiment and oversubscription as key drivers of listing-day gains. Singh and Yadav (2015) conducted a sectoral analysis of Indian IPOs and found that technology and financial services tend to outperform others in early trading. Chaturvedi (2017) confirmed that IPOs in India often face post-listing volatility, and many fail to maintain their listing price over a six-month horizon.

These studies set the groundwork for this research, which contributes updated insights based on recent Indian IPOs.

Objectives of the Study

- To analyze the listing-day returns of Indian IPOs.
- To evaluate post-listing performance over a six-month period.
- To explore the relationship between pre-listing subscription levels and post-listing returns.
- To identify sector-wise patterns in IPO performance.
- To assess investor sentiment and pricing efficiency during the IPO process.

Research Methodology

- **Type of Study:** Descriptive and analytical
- **Data Source:** Secondary data from NSE, BSE, Moneycontrol, Economic Times, Screener.in
- **Sample Size:** 30 IPOs listed between 2019 and 2023

Tools Used

- Percentage analysis
- Graphical representation (bar graphs, pie charts)
- Comparison between issue price and market price
- Correlation between subscription levels and returns

Sectors Covered

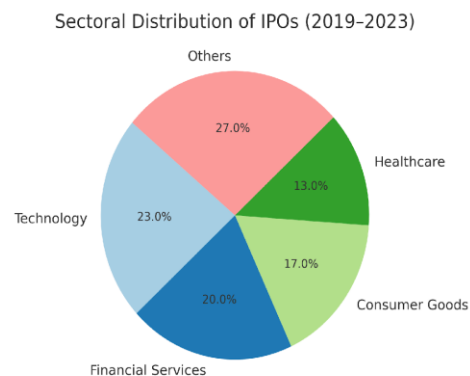
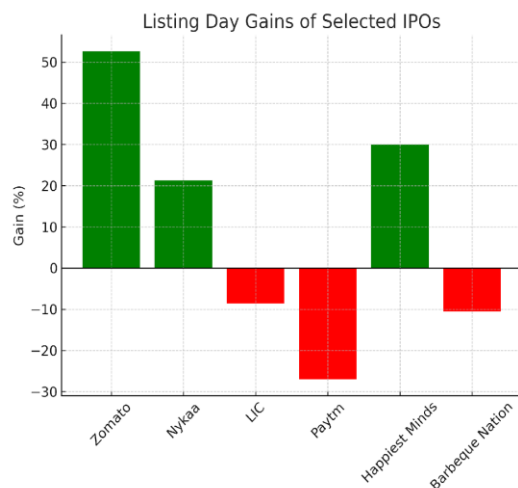
Technology, Financial Services, Healthcare, Consumer Goods, and Others.

Data Analysis

- Listing Day Gains**
 - 63% of IPOs showed positive listing-day returns.
 - Average gain: 18.6%
 - Examples:
 - Zomato: +52.6%
 - Nykaa: +21.3%
 - LIC: -8.6%
- 6 Month Returns**
 - Only 40% of IPOs maintained or improved after 6 months.
 - Average return: -4.8%
 - Happiest Minds performed well; Paytm declined steeply.
- Subscription vs Return**
 - Many over-subscribed IPOs didn't yield gains.
 - Sentiment often dominates fundamentals.

Sectoral Distribution (2019–2023)

Sector	IPOs	%
Technology	7	23
Financial Services	6	20
Consumer Goods	5	17
Healthcare	4	13
Others	8	27



Findings and Discussion

- High Listing-Day Gains Are Common but Not Predictive**

A significant number of IPOs delivered strong gains on the listing day, with an average of 18.6%. However, these early surges often did not translate into long-term performance, indicating short-term speculation.
- Post-Listing Corrections Are Widespread**

Over 60% of IPOs witnessed a decline or stagnation in price after 6 months, revealing a trend of initial overvaluation. This suggests a correction phase where market forces adjust the inflated listing prices.

- **Investor Sentiment Dominates Fundamentals Initially**

IPOs with extremely high subscription rates (e.g., Paras Defence) attracted attention due to market hype rather than financial strength alone. This underscores the emotional aspect of IPO investing.

- **Tech and FinTech IPOs Outperform in Early Trading**

IPOs from technology and financial service sectors such as Zomato, CAMS, and Nazara Technologies tended to yield higher listing returns, possibly due to market optimism around digital transformation.

- **Public Sector IPOs Underperform Despite Strong Brands**

Large, well-known names like LIC failed to sustain their value post-listing, indicating that investor trust in government-backed IPOs may be waning if valuations appear unjustified.

- **Subscription Levels Do Not Guarantee Returns**

A weak correlation was found between the number of times an IPO was subscribed and its actual returns after listing. This shows that high demand does not necessarily ensure long-term profitability.

- **Sectoral Performance Trends Are Emerging**

IPOs in consumer goods, healthcare, and logistics showed mixed results. However, niche sectors like defense and EV components (e.g., Paras Defence, Sona BLW) showed relatively better resilience.

- **Retail Investors Are Highly Influenced by Media and Hype**

The marketing campaigns and social media discussions before IPO launches have a significant impact on retail participation. This raises concerns about informed decision-making.

- IPOs are often overhyped due to marketing.
- Initial gains are common, but correction follows.
- Weak correlation between subscription and returns.
- Technology and fintech sectors outperform.
- Underpricing helps attract subscriptions but misleads investors.

Conclusion

IPO investments in India offer mixed outcomes. While short-term gains are possible, many IPOs fail to sustain long-term value. Strategic timing, research, and company fundamentals play a vital role. Companies like Paras Defence and Route Mobile delivered consistent results; others like Paytm declined post-listing. IPO investments in India tend to reward short-term speculators but often disappoint long-term investors. While some companies like Paras Defence have demonstrated consistent post-listing growth, many others fade after initial excitement. This highlights the volatility and speculative nature of IPO markets, especially in emerging economies like India. Investor decisions are frequently influenced by hype, subscription levels, and media buzz rather than company fundamentals—pointing to a need for improved financial literacy. High subscription figures do not always guarantee long-term returns, and overpricing often leads to post-listing corrections. From the company's perspective, sustaining performance post-listing is crucial for building market credibility and trust among shareholders. Regulatory bodies such as SEBI must enhance transparency, valuation norms, and post-IPO reporting standards to mitigate undue speculation. The period from 2019 to 2023 also reflects the impact of macroeconomic changes, digital transformation, and pandemic recovery—all of which influenced IPO trends. In conclusion, IPOs are not just capital-raising mechanisms but complex market events that demand strategic preparation by companies, critical evaluation by investors, and proactive regulation for sustainable market health.

Suggestions

- **Avoid Investing Based on Subscription Hype**
 - Investors should not rely only on oversubscription numbers or media buzz when applying for IPOs.
- **Check Company Fundamentals**
 - Before investing, study the company's financials, industry, and long-term plans.

- Improve Investor Education
 - SEBI and stock exchanges should offer simple guides and training for retail investors to make informed decisions.
- Publish Mandatory Post-IPO Reports
 - Companies should be required to release performance reports every quarter for at least one year after listing.
- Discourage Aggressive Underpricing
 - Underwriters should avoid pricing IPOs too low just to create fake demand and hype.
- Build Long-Term Trust with Investors
 - Companies must focus on delivering results after listing—not just on IPO-day marketing.
- Better Use of Digital Platforms
 - Create mobile apps or websites to help new investors easily understand IPO terms, risks, and company backgrounds.
- More Role for Academia and Research Bodies
 - Colleges and research institutions should track IPO trends and performance to create public awareness and publish insights.
- Involve SEBI in Sector-Wise Analysis
 - Regulators can release sector-specific IPO reports to help investors choose based on industry trends.
- Responsible Role of Financial Influencers
 - Financial YouTubers, blogs, and Instagram pages must avoid spreading IPO hype and stick to facts.

Limitations of the Study

While the study offers meaningful insights into IPO performance in India, it is not without limitations. First, the analysis is based entirely on secondary data from stock exchange websites and financial platforms, which may not always reflect real-time accuracy or capture qualitative investor sentiments. The dataset is restricted to 30 IPOs from 2019 to 2023, and while diverse, it may not fully represent the entire market dynamics, especially in niche sectors.

Second, the study primarily focuses on short-term and 6-month returns, which may not capture the full lifecycle or longer-term performance trends of IPOs. The exclusion of global IPOs or cross-border listings also narrows the scope. Additionally, market anomalies caused by external factors like the COVID-19 pandemic, economic policy shifts, or geopolitical risks were not isolated in the analysis, which might have influenced stock behavior during the period studied.

Lastly, certain IPO variables such as grey market premium, anchor investor impact, and promoter reputation were not explored in detail due to data availability constraints. These limitations present opportunities for deeper and more granular research in the future.

Future Scope

- Study long-term performance over 3–5 years
- Survey retail and institutional investor behavior
- Compare India's IPO patterns with other emerging markets
- Analyze post-IPO financial ratios and risk factors
- Study Investor Psychology Using Behavioral Finance Models.
- Examine the Impact of ESG- Environmental, Social and Governance Factors on IPO Success.

References

1. Ritter, J.R. (1991). The Long-Run Performance of Initial Public Offerings. *Journal of Finance*.
2. Chahine, S. (2008). Underpricing vs. Post-IPO Performance. *Review of Accounting and Finance*.

3. Banerjee, S., Jain, R., & Puri, S. (2011). IPO Underpricing in Indian Market. IIM Research Paper.
4. Singh, A., & Yadav, P. K. (2015). IPO Performance in India: A Sectoral Analysis. Indian Journal of Finance.
5. Chaturvedi, V. (2017). Price Performance of Indian IPOs. Indian Journal of Economics and Development.
6. Loughran, M., & Ritter, J. R. (2004). Why Has IPO Underpricing Changed Over Time? Financial Management.
7. Aggarwal, R., Leal, R., & Hernandez, L. (1993). Aftermarket Performance of IPOs in Latin America. Financial Management.
8. Jain, B. A., & Kini, O. (1994). Post-Issue Operating Performance of IPO Firms. Journal of Finance.
9. SEBI (2021). Report on Trends in IPO Issuance.
10. NSE, BSE, Moneycontrol, Screener.in (2019–2023 IPO Data)

Selected IPO Case Analyses

- **Zomato Ltd (2021)**

Zomato was one of India's most anticipated tech IPOs, marking a shift in investor interest towards digital platforms and food-tech companies. The issue was oversubscribed more than 38 times, reflecting strong investor enthusiasm. On listing day, Zomato shares surged by over 52%, indicating massive speculative demand and confidence in the company's growth story. However, in the following quarters, the stock witnessed high volatility due to mounting losses and concerns over valuations. This case highlights how tech IPOs attract large retail participation but may face sustainability issues post-listing if profitability remains elusive.

- **FSN E-Commerce (Nykaa) (2021)**

Nykaa's IPO was backed by strong brand equity, especially among millennials and female investors. It was subscribed over 81 times and opened at a premium of 21.3% on listing day. Initially, the stock maintained strong momentum, driven by positive sentiment around India's booming beauty and lifestyle segment. However, within six months, the share price corrected as investors grew cautious about e-commerce margins and rising competition. The case of Nykaa reveals how post-listing price movements can be influenced more by sector outlook and earnings than listing-day hype.

- **Life Insurance Corporation of India (LIC) (2022)**

LIC's IPO was the largest in India's history and drew massive media coverage. Despite being a household name with a vast customer base, the stock debuted with an 8.6% discount on the listing day. Analysts attributed this to overvaluation concerns and the government's tight pricing strategy. Moreover, many retail investors entered the IPO based on brand reputation rather than financial fundamentals. LIC's post-listing underperformance emphasizes the limitations of brand-driven investing and the importance of clear valuation transparency, especially in public sector offerings.

- **Paras Defence and Space Technologies (2021)**

Paras Defence was among the most oversubscribed IPOs in Indian history (304 times), largely due to its niche in defense manufacturing and low issue size. The stock gained nearly 170% on listing day and continued to perform well in the months that followed. Investors were attracted by India's push for defense indigenization and the company's order book. Unlike many hype-driven IPOs, Paras Defence demonstrated sustained investor interest, suggesting that niche-sector IPOs with clear business models can offer long-term returns.

Implications for Investors and Policymakers

- **For Investors**

- Avoid investing based on hype or oversubscription figures — Many IPOs with high subscription numbers failed to deliver long-term returns.

- Analyze fundamentals before applying — Check financials, industry trends, business model, and promoter background.
- Be cautious of grey market premiums — These are speculative and not always indicators of success.
- Understand post-listing risks — Such as promoter sell-offs, lock-in expiries, and broader market corrections.
- Enhance financial literacy — Investors should be educated on how to assess IPO documents, red herring prospectuses, and valuation metrics.
- **For Policymakers and Regulators (like SEBI)**
 - Ensure transparency in IPO pricing — Clear disclosures must be mandated on how the issue price is derived.
 - Introduce IPO rating systems — A simple, independent rating can help retail investors understand risk levels.
 - Tighten disclosure norms — Companies should disclose realistic financial projections, use of proceeds, and risk factors clearly.
 - Promote investor awareness programs — Through digital platforms, webinars, and regional language outreach to empower small investors.
 - Monitor speculative IPO trends — Regulatory watch is needed during IPO booms to avoid market bubbles or crashes.

• **Conclusion and Policy Recommendations**

The Indian IPO market continues to evolve, offering opportunities for companies to raise capital and for investors to participate in growth stories. This study highlights how IPOs, while often exciting and overhyped, do not always deliver sustained returns. Although listing-day gains can be impressive, the reality of post-listing corrections underscores the need for greater caution and informed decision-making.

Many IPOs suffer from short-lived momentum driven by emotional investing and media speculation rather than intrinsic value. As seen in cases like Zomato, Nykaa, and LIC, a strong listing debut does not guarantee long-term performance. On the other hand, niche players like Paras Defence have shown that companies with a focused business model and solid fundamentals can generate consistent investor interest.

To ensure a healthier IPO ecosystem, both investors and regulators must adapt. Investors should develop long-term perspectives and rely on data rather than market sentiment. Institutional investors and mutual funds, too, must avoid herd behavior and evaluate each IPO on merit.

Policy Recommendations

- **Mandatory Post-Listing Performance Disclosure:** All listed companies should be required to publish a detailed quarterly report on financials, major developments, and IPO fund utilization for the first year post-listing.
- **Sector-Specific IPO Guidelines:** Regulatory frameworks can be tailored for different sectors (e.g., tech, manufacturing, public sector) based on their risk-return profiles and market volatility.
- **Retail Investor Protection Tools:** The regulator may consider offering IPO Risk Labels (low, moderate, high), similar to mutual fund risk-o-meters, to guide small investors.
- **Capping Grey Market Activity:** Strengthen enforcement against grey market trading and establish regulatory clarity around unofficial pre-listing price movements.
- **Educational Campaigns in Tier-2 & Tier-3 Cities:** As IPO participation grows in semi-urban areas, SEBI can partner with institutions to promote responsible investing through simplified workshops and multilingual content.

In conclusion, a more transparent, data-driven, and investor-friendly IPO environment will enhance trust in primary markets and contribute to sustainable capital market development in India. Continued research and active stakeholder involvement will be essential for shaping a transparent, efficient, and investor-centric IPO market in India.

