A STUDY ON ANALYSIS OF RISK AND RETURN OF IPO'S IN 2017

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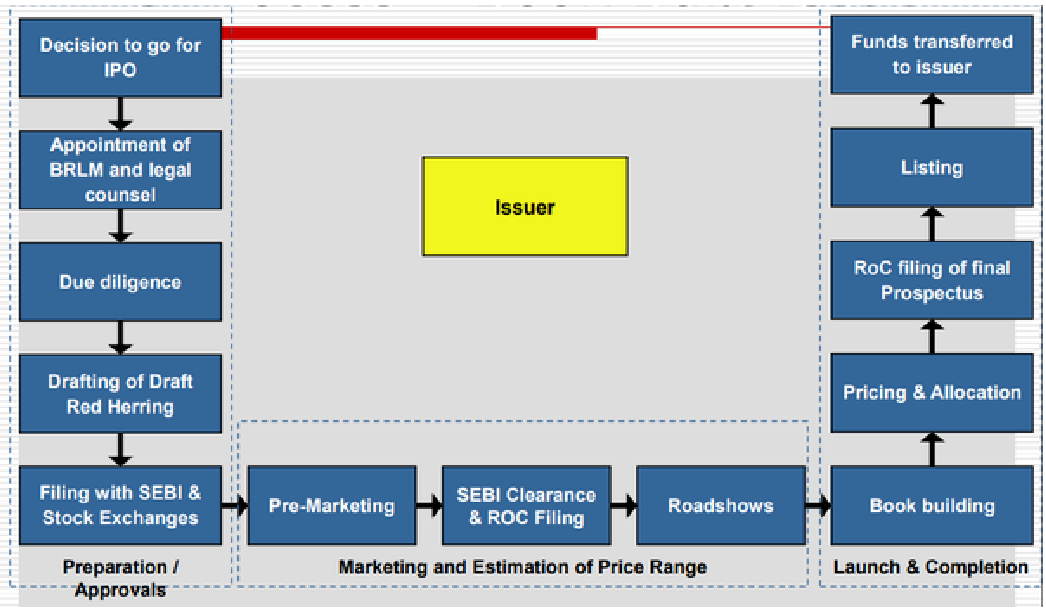
ABSTRACT

The main purpose of this study is to understand the performance of IPO market in India. This study evaluates the extent of risk and return related to IPO. The revolutionary reform which took place in the Indian stock market was fair price discovery of IPOs through the book building mechanism. This paper tries to understand how the risk and return are associated with each other with respect to IPOs issued in the year 2017. IPOs issued in the year 2017 were taken as a base for computing the return and risk for commenting on the performance of IPOs. The IPOs are analyzed by selecting 5 sectors and 5 companies from each of these sectors.

Key words: IPO, Investment, Risk and Return

INITIAL PUBLIC OFFERING(IPO)

The initial public offering is considered as one of the most important events in the life of the company and one of particular interest for institutional investors in the transition from being a private company to the public. IPO is the traditional way to enter the public domain. As for the process, the IPO process is long and complicated and requires one or more of the investment banks, which can sign Reg. Actions. The process of subscribing to investment banks have to buy them at reduced prices, as well as for distribution to the public, these investment banks, usually due to insurers in this process, in addition, the company will also face lawyers and accountants, with the exchange of experiences



The entire process for the IPO can take more than a year to complete, without any certainty that it will be consumed. Due to the complexity of the procedures and high cost, investment banks are usually the largest private companies with higher revenues and a strong operating history. Any IPO process to be successful must include financial statements, taxes, management, internal control, storage, human resources, legal structure.

Introduction of Risk and Return

Risk:

Any financial specialists, before putting his investible cost in the stock, analyzes the risk connected with that stock. The arrival stock might transform from individuals normal return and risk as far as variability of return is concerned. Speculators are similar to investigations the risk components and more learning of risk which arrange their portfolio in such a way to decrease risk connected with the venture. Risk is characterized as the likelihood of misfortune or harms the degree or likelihood of such misfortune.

Business risk:

Business risks are circumstances or factors which can have a negative impact on the operations or profitability of the business. It refers to the anticipation that the firm may earn lower than expected profits or even suffer losses, because of the uncertainties inherent in the business such as competition, change in customer tastes and preferences, input cost, change in government policies, and so forth. It may impede the business ability to provide returns on the investment. It is likewise connected with the risk desperately influencing the inner environment of the firm, those of the circumstances outside its ability to control.

Financial Risk:

Financial risk is the possibility that shareholders or other financial stakeholders will lose money when they invest in a company that has debt if the company's cash flow proves inadequate to meet its financial obligations. When a company uses debt financing, its creditors are repaid before shareholders if the company becomes insolvent. It is connected with the strategy through which it arranges its monetary structure. On the off chance that the Capital structure of a Company tends to make gaining flimsy, the organization might come up short monetarily

RETURN:

Return is a profit on an investment. It comprises any change in value of the investment, and/or cash flows which the investor receives from the investment, such as interest payments or dividends. It may be measured either in absolute terms (e.g., dollars) or as a percentage of the amount invested. Expected Return is the arrival from an assets that financial specialist envision they will gain over some future Period. Acknowledged return is sometime later return-given back that was earned

BETA:

The risk of beta is non-diversifiable. Beta explains the cost of the Security respond to market powers. In actual, the more reactive cost of a security is to change in business sector, then the beta will be higher.

RESEARCH DESIGN

Statement of the problem

Many people who invest in IPO will know about the price fluctuations depending on the company's behavior while investing for either long term or short term. The highlight of the study is to properly analyze the IPO market which can help investors in decision making.

Need for the study

- To know how IPO's affect on stock market.
- To know which sector performed well during the period.
- To know whether it's better to invest in IPO's rather than selecting secondary market.

Objectives of the study

- To study and analyze the IPO market for the year 2017.
- To understand how each company is contributing to their respective sectors.
- To understand how the risk and return correlate with each other.

Scope of the study

The scope the study is extended to IPO's issued during the year 2017-2018.

Research Methodology

Research methods are used to systematically solve research problems.The way in which researchers scientifically study research is scientific, and that is the reason why the researcher reviews the research questions while studying them. Researchers should not only distinguish between research methods and procedures, but also distinguish methodologies.

Sample size

The sample consists of five sectors. Five companies are chosen from each sector. Sectors are mainly Finance, Service, Pharma and healthcare, Food processing, and Information Technology (IT). This study is mainly based on the stock prices of each company in different sectors in stock market.

Sampling type: Stratified Random Sampling

Calculation of risk and return:

Return (Mean) = $\sum\frac{x}{n}$, where x= Weekly prices of each company and n= Total number of prices of each company

Risk (Standard Deviation) = $\sqrt{(\frac{\sum(x-return)}{n})}$

Calculation of average risk and average return of each sectors:

Average risk= $\frac{\text{Total risk of all companies in each sector}}{5}$

Average return= $\frac{\text{Total return of all companies in each sectors}}{5}$

Source of Data

The main source of data is collected through websites of Economic times, money control to obtain the historical prices.

Also the other relevant data required for the purpose of the study was gathered from the various websites, publications, magazines and reports.

Data Collection

The research is purely based on secondary data.

Secondary Data

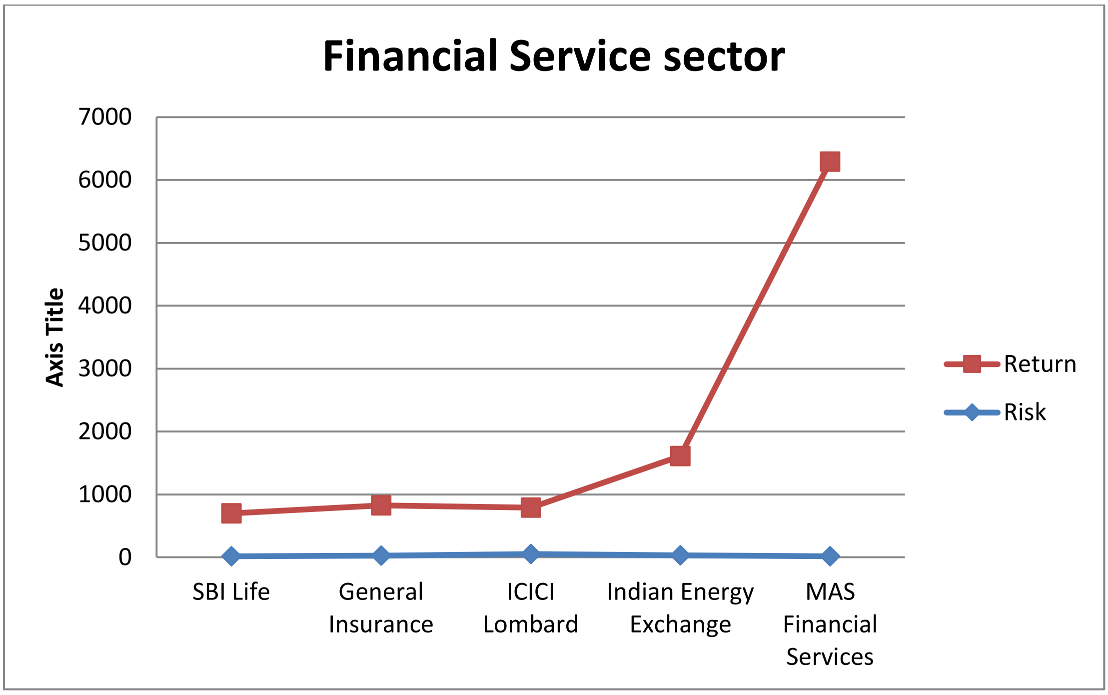
Secondary data was collected by referring to following sources:
1. Kotak Securities
2. Economic times

3. Company websites
4. Research Journals
5. Money control

ANALYSIS AND INTERPRETATION

Financial Service:

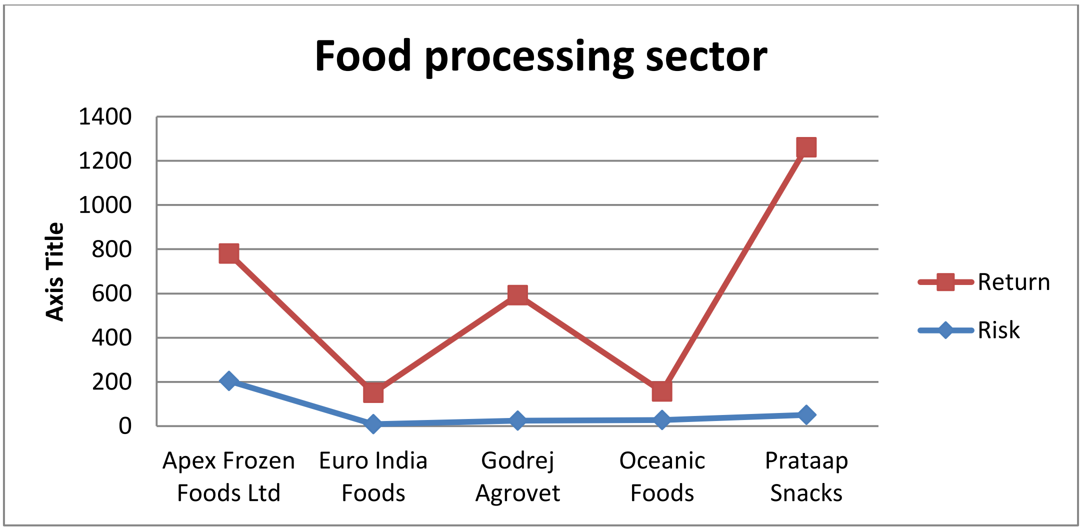
Graph 4.1 Graph showing risk and return of Financial Service Sector:



Interpretation: The MAS financial services gives high return with very low risk compared to other companies in the finance sector.

Food Processing Sector:

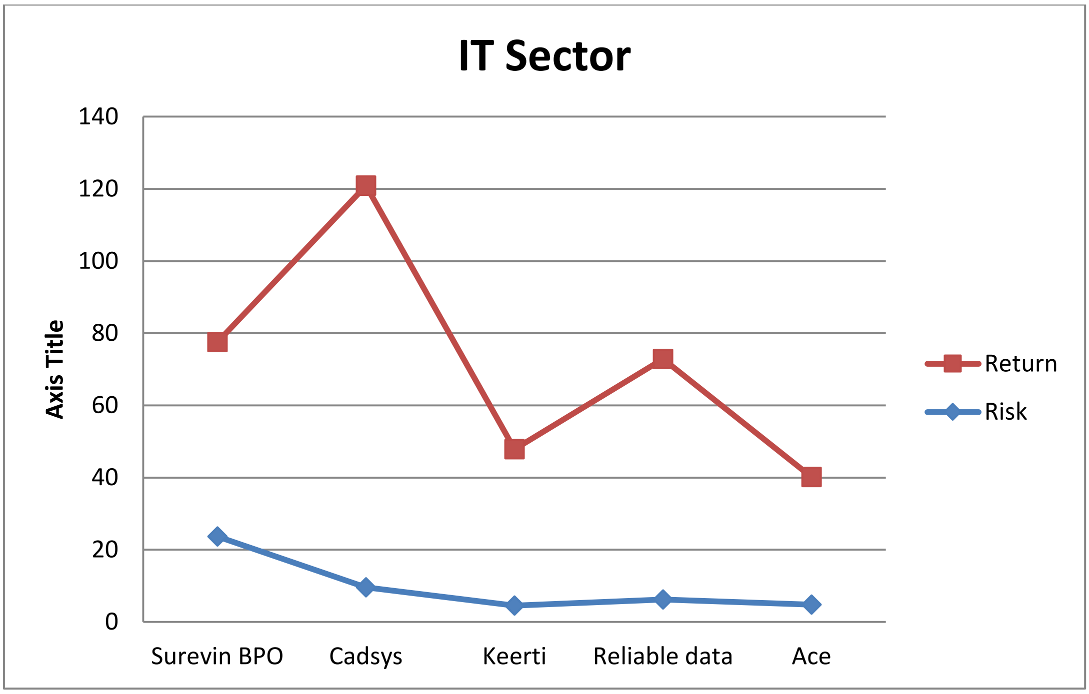
Graph 4.2 Graph showing risk and return of Food Processing Sector:



Interpretation: The Prataap snack gives high return with very low risk compared to other companies in the food processing sector.

IT Sector:

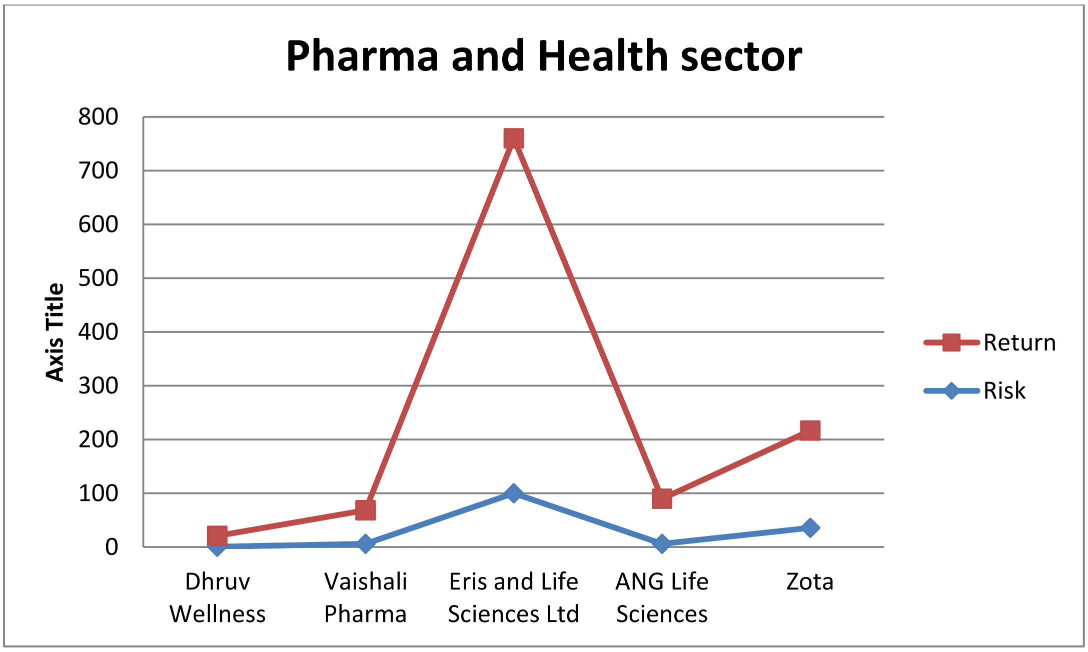
Graph 4.3 Graph showing risk and return of IT Sector:



Interpretation: The Cadsys gives high return with medium risk compared to other companies in the IT sector.

Pharma and Health Sector:

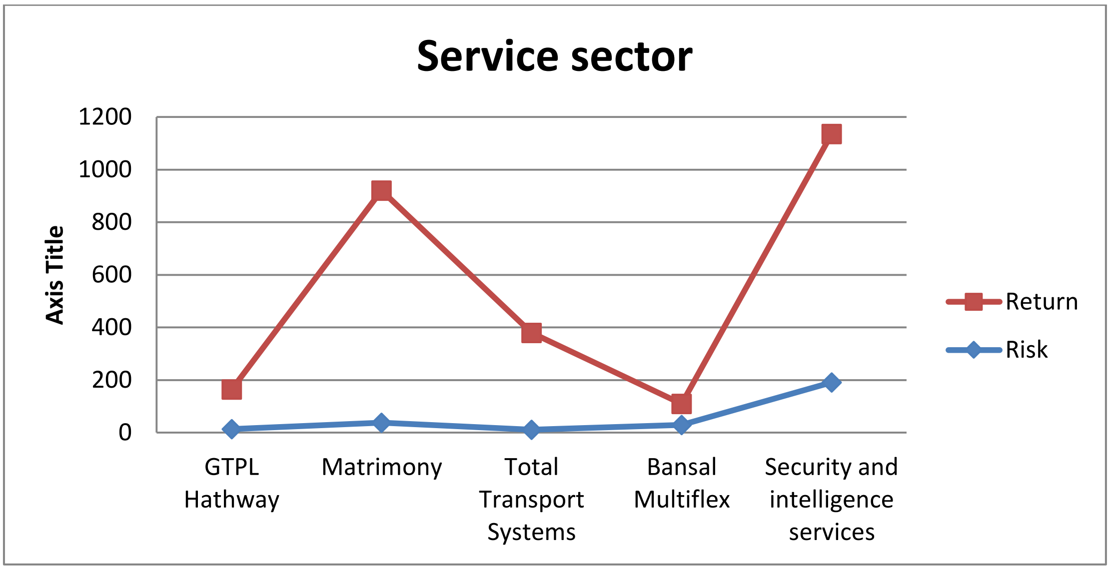
Graph 4.4 Graph showing risk and return of Pharma and Health Sector:



Interpretation: The Eris Life sciences Ltd gives high return with medium risk compared to other companies in the Pharma and Health sector.

Service Sector

Graph 4.5 Graph showing risk and return of Service Sector:



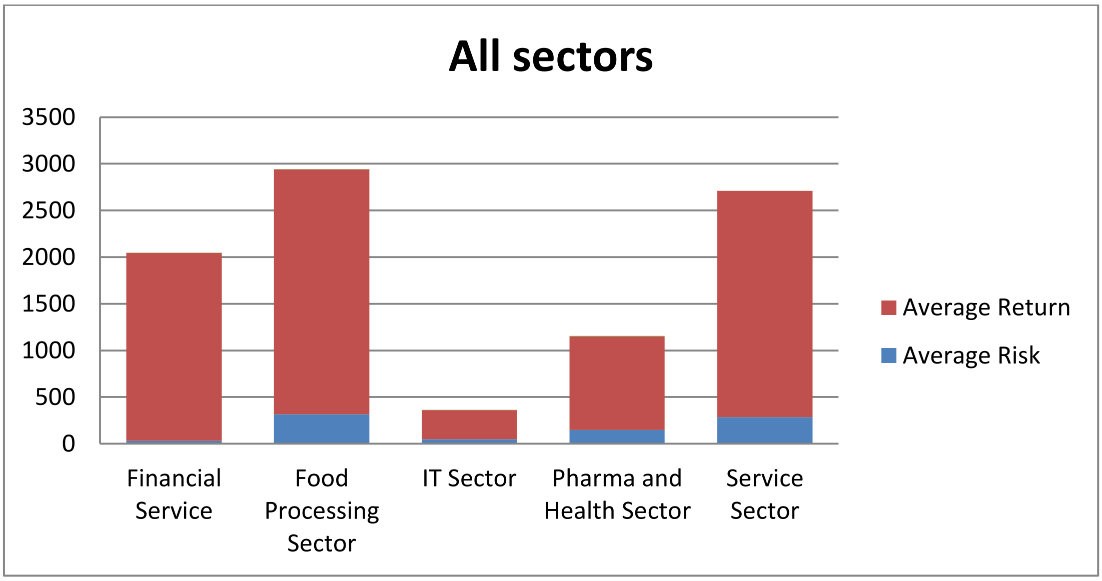
Interpretation: The Security and Intelligence services gives high return with medium risk compared to other companies in the service sector.

The Average Value of Risk and Return of different Sector:

Table 4.1 Table showing average risk and average return of all sectors

Sectors	**Average Risk**	**Average Return**
Financial Service	31.35	2012.39
Food Processing Sector	315.14	2623.98
IT Sector	48.685	310.61
Pharma and Health Sector	147.88	1003.14
Service Sector	283.79	2426.61

Graph 4.6 Graph showing average risk and return of all sectors



Analysis:

The above table shows the fluctuating risk and return of the five sectors. It was found that Food processing sector and service sector were of medium risk and high return, followed by, Financial sector with low risk and high return. Pharma and health sector and IT sector has medium return compared to other sectors but risks are very low.

Interpretation: The Food processing sector gives high return with medium risk compared to all other sectors.

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSIONS

FINDINGS:

- The MAS financial services gives high return with very low risk compared to other companies in the finance sector.
- The Security and Intelligence services gives high return with medium risk compared to other companies in the service sector.
- The Eris Life sciences Ltd gives high return with medium risk compared to other companies in the Pharma and Health sector.
- The Cadsys gives high return with medium risk compared to other companies in the IT sector.
- The Prataap snack gives high return with very low risk compared to other companies in the food processing sector.
- The Food processing sector gives high return with medium risk compared to all other sectors.
- The market always fluctuates on the basis of buying and selling and on demand and supply of market.

SUGGESTION:

- Investing in IPO is safer than investing in individual securities.
- Before investment the investor should analyze the market thoroughly.
- Investing in finance sector and processing sector can give maximum return with a low risk.

CONCLUSION:

After analyzing the report researcher have come to a conclusion that, investors need to think and act smartly so that they can reduce their risk in their investment otherwise they will incur loss.There are other things where investor can invest but they prefer investing in securities, IPO, bonds, etc. The market can never be same as it changes with time as well as demand and supply of that security in market. The investor should analyze the market and its condition before investing in any of stock.

From the above results, researcher concludes that during the year 2017, many of the IPO's were a hit. Among chosen five sectors, namely Service sector, IT sector, Pharma and health sector, food processing sector, and financial service sector, Food processing sector has given the maximum return with medium risk.

Thank You

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