Does Going To Public Affect Operating Performance Of Firms ? : Evidences From Indian Insurance Sector.

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Abstract : This study aimed at analysing the post operating performance of 6 Insurance Companies who made their IPOs during 2015-18. The research tried to find out the initial day returns and the factor affecting the IPOs. The data for the research has been taken of total 6 IPOs. The study applied Listing Day Returns, Market Adjusted Returns, Short Run Performance, and Market Return Sensex on Listing day to analyse the performance of the IPOs. There are few Insurance companies which gave higher returns in short run. And other few Insurance companies which are giving poor returns (or) loss. The listed day returns where better than market return on sensex on listing date. The investors can mainly focus on short run performance of certain companies which are giving higher returns for profit making out of it.

Key Words : IPO, Listing Day Returns, Market Adjusted Returns, Operating Performance, Short-run Performance, Index Returns

I. INTRODUCTION

Indian insurance industry has witnessed remarkable growth after economic liberalisation. The Indian insurance sector has a longstanding history as the banking industry. The Insurance Regulatory Development Authority (IRDA) was incorporated during the year 2000. It has permitted the Indian companies to venture with foreign players to provide insurance cover to the masses at reasonable cost. The growth of Indian insurance sector is one of the key drivers for economic development of the country. It generates long-term funds for numerous socio-welfare activities of the country. Out of 63 insurance companies in India, 24 companies are in life insurance business and the remaining 39 are in non-life insurance business. The insurance regulatory body IRDA have permitted the Indian insurance companies to raise their funds from capital market. The Indian Government has reduced their stake in capital of five public insurance companies from 100 % to 75%. As a result of relaxed norms in raising of capital and Government's disinvestment in state owned insurance companies, five insurance companies have announced their IPO and gathered their equity capital to the tune of Rs. 45,000 crore during 2016-18. This has motivated the researchers to carry the performance of IPOs made by Insurance firms in India.

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listing performance of IPOs of Insurance companies. The rest of paper organized as follows; section 2 deals with empirical evidences on listing performance and post operating performances of IPOs, section 3 describes about the methodology adopted, section 4 deals with data analysis and interpretation and section 5 concludes the paper .

II. EMPIRICAL BACKGROUND

The summary of research on IPO performance by various researchers are presented in this chapter. Market risk adjusted and unadjusted returns of public issues of Indian public sector banks have outpaced the market returns. The above findings extracted from the research work of Ram Mohan (2003) who have made an attempt to find out the comparative performance of 24 public issues made by public and private banks. The researcher have considered the benchmark index as Sensex. Arwah Arjun Madan (2003) evaluated the performance of 1597 IPOs announced and listed by Indian companies during 1989-95. Considering the net return 79.4% of the total 1597 IPOs registered a positive return on the listing day and 20.6% of IPOs registered negative returns. In the short run the IPOs were underperformed and in the long run it will be reversed. This could be observed from the research of Shikha Sehgal & Balwinder Singh (2007) who have investigated the initial and long-run performance of 438 IPOs listed on the BSE from 1992 to 2006. Buy-and-hold returns was found to be negative between 18 and 40 months of holding. After 40 months, the underperformance of IPOs has disappeared ,i.e., in India, underperformance persists for about one-and-a-half years to a little more than three years. The distinct nature of Indian sectors have resulted in performance of IPOs too. A study carried by Priyanka Singh & Brajesh Kumar (2008) found that the IPOs from Infrastructure, financial and entertainment sectors have reported positive long run return whereas the IPOs from the IT sector has given higher initial return but negative return in the long run. Heerden Van Gillian and Alagidedepaul (2012) examined the listing performance of 138 IPOs that were listed on the Johannesburg stock exchange (Africa) from

2006 to 2010. The IPOs were segmented as financial, mining and other sectors for the analysis purpose. From the results it was found that the average market-adjusted return for the initial day was 108.33% for the 138 IPOs. The researchers suggested that an investor would ideally have preferred to have held onto his IPO for 15 days. Financial sector IPOs delivered highest first day trading returns (548.73%) than mining and other sector IPOs.Joshi et al (2013) assessed the performance from the day of listing to till 365 days for a period of 2005 to 2012. For this purpose, they considered a sample of 150 IPOs issued by Indian corporates. The CARR and WR computed on an aggregate basis resulted that only 43 IPOs are underpriced i.e. giving positive abnormal return while remaining 107 IPOs are overpriced i.e. negative return. In a similar way, WRs is found at the level of 2.1363 for first one month and then 0.8876 for a one year time period. S.Suresh & P.G.Thirumagal (2018) have studied the short-run performance of 14 Initial Public Offerings(IPOs) announced by Indian Banking Financial Services and Insurance (BFSI) firms during 2013-18. After Market performance of IPOs in the short- run were assessed through short-run holding period return, Market adjusted returns and Wealth Relatives (WR) .Short-run performance of IPOs were considered from 2nd day to 20th day since listing. The study found that IPOs of from BFSI sector firms have outperformed the market in the short-run. As per the study of Suresh and Yogalakshmi (2016) on literary review on IPO research in India, the researchers found that performance of IPOs from a specific industry could be studied in detail. Based on the literature survey one could found that very few researchers have made an attempt to study about the post listing operating performance of Insurance firms in India. This has motivated the researchers to carry an empirical study on post listing operating performance of IPOs of Insurance firms in India.

III. METHODOLOGY

This study have considered six IPOs announced by Indian insurance companies during 2015-18. The analytical research design is adopted in this study. The researchers have gathered the IPO details of Insurance firms from the official website of Bombay Stock Exchange. The following objectives are framed for this study;

- To study the listing performance of IPOs of insurance companies
- To assess the short run holding period returns during 2nd, 5th, 7th, 10th, 15th, 20th and 30th days since listing.

Bombay Stock Exchange's index Sensex is used as a proxy to measure the market adjusted returns of the samples selected in this study. The following tools are used to find out the listing and post operating performance of IPOs;

Listing Day Return (LDR) =((I0 – Ip)/Ip)*100 ------------(I)

(I0) listing day opening price and (Ip) offer price

Market Return on Listing day (MR) = (M0-Mp/Mp)*100 ---------------------- (II)

(M0) Opening Index Value on listing day and (Mp) Index Value on the issue announcement day

Market Adjusted Return (MAR) = (1+LDR/MR) ---------- (III)

Variables selected for measuring post operating performance of IPO are as follows;

- Earnings Per Share (EPS)
- Dividend Per Share (DPS)
- Net Profit Ratio
- Current Ratio
- Return on Assets

Hypothesis of the study

- There existed no significant different between the insurance companies in terms of EPS,DPS, Net Profit Ratio, Current Ratio and Return on Assets.

IV RESULTS AND DISCUSSIONS

Table 1 *Listing Day Return of Insurance Companies in India.*

Sl. No	Name of the Company	Listing Day Return (%)	Market Return (%)	Market Adjusted Excess Return(%)
1	HDFC Standard Life	7.24	-1.16	8.4
2	SBI Life Insurance	4.75	-2.86	7.61
3	GIC	-6.79	3.18	-9.97
4	ICICI Lombard	-1.66	-1.31	-0.53
5	ICICI Prudential	10.53	-0.71	11.24
6	The New India Assurance	-6.53	-6.38	0.15
	Mean Return	1.281	-0.45	10.22

Source: Data collected from www.bseindia.com

It is observed from Table 1 that the ICICI Prudential IPO has given the highest listing day return of 10.53 percent followed by HDFC Standard Life as 7.24 percent among the six insurance IPOs. On the other side, the lowest negative return was reported by GIC as -6.76 percent. The mean listing day return of all IPOs during the study period has reported as 1.28 percent. In terms of market return, the IPO of General Insurance Corporation has reported the highest return of 3.18 percent and the lowest negative return has recorded by SBI life insurance as -2.86 percent. The mean market returns of all IPOs stood at -0.45 per cent. On the listing day, the IPO of ICICI Prudential has outperformed the market returns with 11.24 percent followed by IPO of HDFC Standard Life as 8.4 percent. The lowest negative Market Adjusted Return has given by IPO of GIC as -9.97 percent. The Mean Market Adjusted Excess Return of all insurance IPOs have reported as 10.22 percent during the study period.

***Table 2** – Short-run performance of Insurance IPOs*

Insurance Firms	No of Days Since Listing						
	2	5	7	10	15	20	30
HDFC Standard Life	22.37	28.87	31.13	27.86	33.93	32.79	33.13
SBI Life Insurance	0.3	-0.58	-1.55	-4.26	-4.88	-5.38	-5.72
GIC	-53.18	-52.25	-54.01	-55.74	-54.89	-56.19	-56.52
ICICI Lombard	3.74	3.1	2.79	4	7.29	3.29	2.6
ICICI Prudential	-7.15	-6.12	-5.07	-2.2	-2.3	-7.6	-8.72
New India Assurance	-56.13	-57.78	-58.32	-59.46	-61.27	-63.53	-61.71
Mean Return	-15.01	-14.13	-14.17	-14.97	-13.69	-16.10	-16.16

Source: Data collected from www.bseindia.com

The short run performance of HDFC Standard Life have exhibited positive short-run post listing returns on all days since listing. The HDFC's IPO have reported the return of 33.93 percent in the 15th day since listing which could be identified as the highest return among the IPOs announced by other insurance firms. The short run performance of SBI life insurance's IPO has given positive returns in the 2nd day and negative returns thereafter. The short run performance of ICICI Lombard has recorded minimum positive returns from 2nd day to 30th day since listing. On the other hand, the short run performance of ICICI Prudential has reported negative returns since listing.

The two state owned general insurance firms viz.,GIC and New India Assurance Company's IPO have produced negative returns from the 2nd day to 30th day since listing.

***Table 3** – Post Operating Performance of Insurance Firms*

Insurance Firms	Earnings Per Share				Dividend Per Share				Net Profit Ratio				Current Ratio				Return on Asset			
	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
HDFC Standard Life	3.93	4.10	4.44	5.53	0.70	0.90	1.10	1.36	90.10	92.25	88.05	86.47	23.71	20.23	15.93	0.76	1.13	1.06	0.93	1.00
SBI	8.15	8.44	9.55	11.50	1.20	1.20	1.50	2.00	8.15	8.44	9.55	11.50	20.83	15.17	17.76	18.58	1.09	1.01	0.93	0.94
GIC	32.59	30.8	36.37	36.86	0.77	1.26	11.65	13.50	97.79	80.66	78.60	83	2.40	2.20	0.73	0.73	3.81	3.57	3.29	2.93
ICICI Lombard	13.14	11.30	15.66	19.01	2.00	3.00	3.50	3.25	13.11	11.29	15.56	18.98	0.01	0.01	0.53	0.51	3.99	2.95	3.00	2.89
ICICI Prudential	11.46	11.54	11.72	11.28	5.85	8.40	5.25	7.80	11.46	11.54	11.72	11.28	0.69	0.67	1.01	0.79	1.62	1.57	1.34	1.14

New India Assurance	68.71	46.73	36.37	26.71	11.00	15	7.50	8.75	68.71	46.73	50.40	26.71	0.59	0.56	0.51	0.53	2.21	1.46	1.45	2.86

Source : Data collected from annual reports of insurance companies

In terms of Earnings Per Share (EPS) , the state owned insurance firms viz., New Indian Assurance and GIC have fared better EPS during the study period than the private owned insurance firms. The New India Assurance have reported the highest Dividend Per Share (DPS) followed by the and ICICI Prudential as compared with other insurance firms. Net Profit Margin of HDFC Standard Life, GIC, ICICI Prudential, ICICI Lombard, and the New India Assurance have exhibited a good performance whereas the SBI Life Insurance has reported a lower Net profit margin during the study period. The current ratio, measure of liquidity and short – term solvency, has fared better for HDFC standard life, SBI and GIC. On the other hand, ICICI prudential, ICICI Lombard and the New India Assurance have reporter a lower current ratio during the study period. In terms of Return On Assets (ROA), the GIC, ICICI Lombard and New India Assurance have reported better ROA as compared to the other insurance firms.

TABLE 4

ANALYSIS OF VARIANCE BETWEEN DIFFERENT FINANCIAL VARIABLES AND INSURNACE FIRMS

		Sum of Squares	df	Mean Square	F	Sig.
EPS	Between Groups	5034.990	5	1006.998	17.403	.000**
	Within Groups	1041.572	18	57.865		
	Total	6076.562	23			
DPS	Between Groups	280.114	5	56.023	5.702	.003**
	Within Groups	176.837	18	9.824		
	Total	456.951	23			
NPR	Between Groups	27387.799	5	5477.560	83.843	.000**
	Within Groups	1175.957	18	65.331		
	Total	28563.755	23			
CR	Between Groups	1359.059	5	271.812	15.010	.000**
	Within Groups	325.965	18	18.109		
	Total	1685.024	23			
ROA	Between Groups	22.852	5	4.570	29.217	.000**
	Within Groups	2.816	18	.156		
	Total	25.668	23			

Source : Data Collected from annual reports
Note : ** Significant at 1% Level

It could be found from the results of one way Anova that significant difference existed among the insurance companies in terms of Earnings Per Share (EPS), Hence the null hypothesis has rejected at 1 percent level of significance (F=17.403, p=0.000). The results in the Table 4 have exhibited that significant difference existed among the insurance companies in terms of Dividend Per Share (DPS). Hence the null hypothesis has rejected at 1 per cent level of significance (F=5.702, p=0.003). Based on the results of analysis of variance between insurance companies and the Net Profit Ratio (NPR), one could infer that there existed significant difference among the insurance companies in terms of Net Profit Ratio. Therefore, the null hypothesis has rejected at 1 per cent level of significance (F=83.84, p=0.000). The results in the Table 4 have exhibited that significant difference existed among the insurance companies in terms of Current Ratio (CR). Hence the null hypothesis has rejected at 1 per cent level of significance (F=15.01, p=0.000).

One could found from the results of one way Anova that significant difference existed among the insurance companies in terms of Return on Assets (ROA), Hence the null hypothesis has rejected at 1 percent level of significance (F=29.217, p=0.000).

V. CONCLUSION AND SCOPE FOR FURTHER RESEARCH

Numerous researchers have attempted to find out the performance of IPOs on the listing day. An extensive research were made to assess the long and short run performance of IPOs in capital markets in the past decades. But a very little evidences could be traced on the operating performance of firms during post issue period. This study aimed at analysing the performance of Indian IPO of 6 Insurance Companies. The research tried to find out the initial day returns and the factor affecting the IPOs. The data for the research has been taken of total 6 IPOs. The study has applied Listing Day Returns, Market Adjusted Returns, Short -term performance to analyse the performance of the IPOs. There are few Insurance companies which have given higher returns in short run. The listing day returns where better than market return on SENSEX on listing date. The investors can mainly focus on short run performance of certain companies which are giving higher returns for profit making out of it. The state owned insurance companies viz., GIC and New India Assurance have fared better post operating performance than the private owned insurance companies during the study period. The study can be extended to other sectors and the period of the study could be considered for a long term.

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