Chapter 1

A Study to Analyze the Impact of the Sub-Prime Crisis on IPOs

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ABSTRACT

The study of the IPOs are for a period of 10 years; hence, each company that came out with an IPO between 2004 and 2013 has been studied in terms of the paid up capital raised initially and then broken down into six sectors according to the type of industry they belong. The research is based on the assumption that the subprime crisis had a global effect and hence many developed countries suffered in terms of fall in exports, rise in debt defaults and reduced earnings of the corporate. However, the effect on India was minimal but the worldwide panic was there. The researchers have studied the impact of the subprime crisis on the IPOs issued during pre- and post-subprime crisis. The researchers have used statistical test to study the impact of subprime crisis on the Indian stock market. This compilation is a culmination of comprehensive in-depth study as well as practical experience.

INTRODUCTION

An IPO is like a negotiated transaction - the seller chooses when to come public, and it is unlikely that it’s a time favourable to you. - By Warren Buffett

Initial Public Offer or offering shares to the public for the first time is a process where in a company issues shares/stock/small shareholding of its company to the public or people at large in order to raise capital or money for their long term capital requirements by passing on the right to decision making of the company, to the public.

From the “publican” during the Roman republic to the modern day issues of Alibaba, the basic nature of IPO has not changed. All that is different is the methodology. The basic planning is crucial to the whole process as this is where the company decides the amount which it requires, sources of capital, method of allotment, price at which shares need to be issued and also the time of issue keeping in mind the economy.

The study has been conducted to find out the reason for the number of successful IPO’s before 2008 in order to find out the exact nature of event due to which the companies after 2008 reduced their exposure to capital markets. Moreover the reasons could range from interest rates, capital market restrictions, FII’s, global economy slowdown to even war and natural calamity. The Sectoral analysis would further throw light on the major companies that went for an IPO and what are the reasons for their subsequent under or over subscription. The study even though has been conducted in isolation for India but the factors may be external as well for the change in company’s ideology for IPO’s.

The year 2006 saw the surge in IPO’s in India with successful IPOs’ like ONGC, NTPC, TCS, Jet Airways, Cairn India etc. The total volume raised grew at the rate of 20-45% as compared to the past. The major reason for such an overwhelming response from the public was boom in stock market prices and investor confidence in the market as well as in the company. The period of 2004 to 2008 may be termed as golden years of IPO as a major chunk of shares were easily subscribed by the public and some over even oversubscribed to the extent of 95%. However IPO scams like that of Yes Bank actually caught the attention of investors later on who now got aware of the intricacies of IPO’s.

The year 2008 onwards saw a huge decline in IPO’s in the markets all over the world. The recession struck continents namely USA, Europe etc. had investors who became aware of the situations all over the world and starting pulling out funds from where they had invested thus leading to fall in stock markets all over the world. The companies also started to make provisions to cater to the losses if any due to this and hence most of them held up their requirements of the long term finances.
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