A STUDY OF THE IMPACT OF THE INDIAN STOCK MARKET CRASH OF 2008 ON IPOS LISTED ON THE NATIONAL STOCK EXCHANGE

DIVYA JINDAL
Apeejay School of Management Dwarka, New Delhi, India
divyajindal@yahoo.com

RAVI SINGLA
Punjabi University Patiala Punjab, India
singlar@rediffmail.com

Abstract

Initial Public Offerings (IPOs) have in been observed to provide a good investment opportunity to investors for earning considerable returns upon listing as they have been observed to be underpriced in the past. The continued participation of investors in the new issues market is contingent on a stable stock market. This does not always hold true as the stock markets experience crashes sporadically shattering investor confidence and in turn affecting the number of IPOs entering the primary equity market and the IPO listing returns. One such stock market crash was observed in India on 24th October 2008 when the Indian stock market experienced a major crash falling by 12.2% on a single day. The present study finds the effect this crash had on the number and size of IPOs entering the market, and also the initial returns of IPOs listed on the National Stock Exchange (NSE) from 2005 to 2011. The study further examines whether the crash caused a change in the quality of IPO issuing companies in terms of their age, size, profitability and leverage at the time of the issue. The 223 IPOs in the pre-crash period provided a mean initial raw return of 30 % while the 110 IPOs issued in the post-crash period provided a significantly different raw return of 9.5%. The IPOs issued in the pre-crash period also provided a significantly different mean market adjusted initial return (29.4%) from that provided by the IPOs issued in the post-crash period (8.9%). It is also observed that the issue size of IPOs issued after the stock market crash is also significantly larger. In terms of the quality of issuing companies, it has been observed that there is no significant difference in the age, leverage or profitability of the issuing companies in the pre and post-crash periods. However, in the post-crash period the issuing companies are significantly larger in size in comparison to the pre-crash period. This is an indication of a shift in the IPO market towards larger and therefore less risky issuing companies because only reputed companies which have the capability to raise such large amounts from the stock market would venture to issue large issues.

Key words: IPO, Initial Return, Stock market crash, leverage

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