Don't wait, sell that IPO on Day 1

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How the top 200 fared

	1-year horizon	2-year horizon	3-year horizon
No. of cos that completed the time period since listing	177	151	139
No. of cos that beat listing day gains in the period	78	62	45
No. of cos that fell short of listing day gains in the period	99	89	94
No. of cos that beat Sensex performance in the period	82	63	51
No. of cos that fell short of Sensex performance in the period	95	88	88

Note: The top 200 have been classified according to the issue size

Source: Prime Database, Mint analysis

MUMBAI: It may have been a prudent idea to sell most initial public offer (IPO) shares on listing day rather than holding them for one or two years, a Mint analysis of the top 200 new share sales by issue size since 1999 shows.

Data sourced from primary market tracker Prime Database shows 177 of the top 200 IPOs have completed at least a year since their listing. Of these 99 stocks had one-year returns that lagged the listing day pop. The year-end price of 84 stocks fell below the IPO issue price.

To be sure, some of these might have listed at the very end of a bull run or economic upcycle. However, looking at it another way, the one-year return of 95 stocks lagged that of the benchmark Sensex index.

The numbers get worse when two-year and three-year returns are compared to the listing day pop. The table along side has details. In other words, the frenzy and hype surrounding IPOs, more often than not leads to good trading propositions but not investment ideas.

"The big question that investors need to consider is am I buying at a fair price or not?," said Nilesh Shah, MD, Kotak Mahindra Asset Management Co. "In India, the mistake that retail and institutional investors commit is they start looking at grey market premiums and decide on their investment in the IPO."

The grey market is usually driven by HNIs (high net worth individuals), who put in bids to subscribe to large chunks of an IPO, far in excess of the portion reserved for them. This pushes the overall subscription levels for the issue and, in turn, attracts investors to buy shares in the grey market at a premium.

AROUND 12 COMPANIES HAVE FILED IPO OR FOLLOW-ON PUBLIC OFFER DOCUMENTS WITH THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI), AND ARE AWAITING APPROVAL

"That market has no scientific way of discovery. It could be rigged very easily, as it is unauthorised," Shah said.

Around 12 companies have filed IPO or follow-on public offer (FPO) documents with the Securities and Exchange Board of India (Sebi), and are awaiting approval. Some of the prominent names here include National Stock Exchange of India Ltd., which plans to raise around ₹10,000 crore. SBI Life Insurance Co Ltd and New India Assurance Co Ltd plan to raise around ₹7,000 crore each, Prime Database data showed. Another 11 companies, have filed their IPO/FPO documents, and got Sebi approval as well, and collectively plan to raise ₹6,580 crore.

A few, were of the opinion that selling on the listing day, was a good strategy in a bull market, and usually led to decent gains.

"People just hold on and have inertia or are greedy not to sell at a time when they can make profits. That is where they lose the opportunity to make good money," said Prithvi Haldea, founder and chairman of Prime Database. "Then if the prices go down, they complain of over pricing."

"IPOs should not be put on a pedestal and all expected to perform well and forever," Haldea added.

The top IPO by issue size, Coal India Ltd., which raised nearly ₹15,200 crore in 2010, saw a listing day gain of 39.73%. Over 1-year, 2-year and 3-year periods, it posted gains of 33.06%, 43.04% and 19.24% gains respectively from the issue price.

Over the three-year horizon, the best performing stock was state-run bank Union Bank of India, which rallied 688.13%. Following next was Jubilant Foodworks Ltd., which gained 683.14% over the first three years. State-run Canara Bank which gained 553%.

Following next were, Maruti Udyog Ltd (now known as Maruti Suzuki India Ltd.), Bharti Tele-ventures Ltd. (now known as Bharti Airtel Ltd.), National Thermal Power Corp. Ltd.(currently known as NTPC Ltd.). These stocks rose 524.60%, 384.78% and 281.94% respectively in the first three years of their listing.