IPOs chased by retail investors have lagged on returns

Some offers which saw lukewarm retail response have done well post listing

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Despite the slowdown and uncertainty in the economy, ample liquidity among investors and low interest rates on fixed income instruments have helped recent IPOs receive overwhelming responses.

However, these IPO stocks that investors chase don't always fetch good returns, reveals a *BusinessLine* study using data from PRIME Database. Data since 2017 show that only five out of 10 IPOs oversubscribed by institutional and HNI (high-net-worth individuals) investors show positive returns till date, since listing day. For retail investors, the hit rate is even lower.

For the purpose of this story, only those IPOs since 2017 that have subscriptions more than the minimum subscription witnessed in the listed IPOs of 2020, are considered. The minimum IPO subscriptions — by institutional, non-institutional and retail investors — in IPOs listed so far in 2020 stand at 5.76 times, 43.29 times and 2.17 times, respectively.

Retail investors' bets lag

Out of 41 IPOs since 2017 that were oversubscribed by retail investors, only 18 stocks (44 per cent) have given positive returns till date. Thirty-five of these gained on listing, though, showing that the initial euphoria could not carry through to the long-term.

Take the Matrimony.com IPO. Till date, the stock has lost 41.4 per cent since its listing in September 2017. While QIBs (qualified institutional buyers) and NIIs (non-institutional investors including HNIs) subscribed to this IPO by about 1.4 and 0.3 times, respectively, retail investors over-subscribed to the IPO much higher, by 17 times.

Top oversubscribed stocks *By Retail shareholders*

Company	Number of times subscribed	Light day gains (%)	Return till-date* (%)
Astron Paper & Board Mill	74.37	128.0	-63.4
Happiest Minds Technologies	60.30	111.4	0.3
Salasar Techno Engineering	56.57	140.0	-22.8
Ujjivan Small Finance Bank	45.29	56.8	-44.6
CSB Bank	40.98	41.0	-20.0

Source: Prime database *until September 23, 2020

Bharat Road Network Ltd's IPO follows this trend. Its stock has dropped a whopping 86 per cent till date since its listing in September 2017. The subscription by QIB, NII and retail investors stood at 1.16 times, 1.05 times and 5.22 times, respectively.

Similarly, higher subscription by retail investors was seen in IPOs such as Tejas Networks, Eris Lifesciences and Shalby whose shares have fallen by 72 per cent, 13.8 and 69 per cent, respectively.

Three out of the four IPOs oversubscribed by retail investors overlap with the IPOs oversubscribed by either institutional or HNI investors. The track record of institutional investors seems slightly better, though. Out of the 38 stocks oversubscribed by QIBs, half of the stocks have delivered positive returns till date. Out of 38 stocks, 36 gave positive returns on the listing day.

Stock-picking abilities

However, some stocks preferred by institutions and HNIs, but shunned by retail investors have done well, showing that the former category of investors are better than retail investors at stock-picking. One such IPO is HDFC Standard Life Insurance, which has gone up 87 per cent till date since listing in November 2017. Subscription by QIBs and NIIs stood at 8.67 times and 2.23 times while retail shareholders' subscription was just 0.88 times. Others in this category include Fine Organics and SBI Cards and Payment Services.

Having said that, some stocks not preferred by institutions and HNIs but picked up by retail investors also did well. For instance, Xelpmoc Design & Tech went up to ₹227 per share as on September 23, 2020 as against the open price of the stock on listing day at ₹56. But such instances are few and far between.

Note that the above analysis does not include companies that either split the shares or issued bonus shares post-listing.