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A Critical Evaluation Of Mutual Fund Investments In IPO's- Is There A Value Creation Or Erosion For Investors

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INTRODUCTION

The prolonged scepticism of investors about investment in mutual funds is evident from the fact that only 9% of the domestic savings go into this asset class. A SEBI survey carried out in 2019 disclosed the fact that over 90% of investors still preferred bank deposits over other forms of investment. However, all the 43 Asset Management Companies in the country have together managed to enhance the total Assets Under Management to over 26 Lakh Crores in October 2019 from over 5 Lakh Crores in December 2007. The increasing cash flows through lump sum investments and systematic investment plans have enabled these institutions to significantly scale up over the last 12 years. However, investors across both segments have continued to nurture doubts about performance, particularly during the bearish phase. Although there has been a significant degree of increase in terms of number of accounts for SIP's and lump sum investments, there is also been periods when cash flows were reduced to a trickle or completely dried up. This is particularly true of funds that are equity focused or have a considerable part of their portfolio in equities.

JUSTIFICATION FOR THE STUDY

Fund managers in India go overboard in making investments by subscribing to Initial Public Offering because there is generally a quota of allotments for mutual funds. Premium issues typically get over subscribed several times the issue size and even mutual funds get pro rata allotment. While some of them cash out by taking advantage of a high listing price, many others continue to hold on in the hope of seeking higher returns. However, several issues open with poor listing or go below the allotment price after a feverish profit booking activity is witnessed on listing. Since, several companies don't choose Green Shoe Option (GSO) as a market stabilisation mechanism, the decline starts immediately after the listing or on the listing day itself. Many of these IPO issues failed to reach even the allotment price for a long time causing erosion of value to the investment and the investors.

Under these circumstances, it is relevant to study the performance of IPO's subscribed to buy mutual funds and the consequent effect on the portfolio. The nagging question of over pricing of IPO's can best be answered by a critical evaluation of some IPO's that hit the market in the last 3 years from September 2016. This study attempts to analyse the performance of shares that came to the market in recent years and how it affected the performance of funds that invested in these equity issues.

SCOPE OF THE STUDY

The study has chosen 10 Initial Public Offers that came to the market and got fully subscribed or oversubscribed in the past 3 years and analysed their subsequent performance by using some trusted parameters. It has considered the price of the shares on listing, their all-time high and low, their 52 week high and low and the closing price on 31st October. The evaluation of the fund performance is based on the performance of the shares that were

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subscribed to. The study assumes that the fund managers could have exited by selling on listing or holding on to the shares hoping for a better price.

OBJECTIVES

The study is carried out with following objectives;

1. To trace the history of mutual fund investments and growth in India before and after liberalisation.
2. To examine the performance of mutual fund investments in initial Public Offers over the last 3 years.
3. To critically evaluate the issue of IPO pricing and creation or erosion of value in secondary markets.
4. To suggest measures that may enable mutual funds to improve performance through judicious choices.

METHODOLOGY

This descriptive study is based entirely on secondary data drawn from financial data bases AMFI website, NSE and BSE and SEBI. It also uses data from journals and periodicals for literature survey. It uses simple statistical tools such as tables, graphs and percentages for the purpose of analysis and interpretation.

REVIEW OF LITERATURE

A.Affiliated Mutual Funds and the allocation of Initial Public Offerings. Jay Rilter, Donghang Zhang (2007): The authors framed a model in which the ratio of a bidder's Q to that of a prospective target has a non-monotone, inverted U shaped effect on the probability of the two firms merging. Further they find that the likelihood of a merger is positively and linearly related to the ratio of the growth potential of an acquirer and its prospective target.

B. Twenty Years of India's Liberalisation: Experiences and Lessons. Arvind Vermani, Partha Ray (2012): in this book the authors bring out the changes and lessons to be learnt from the liberalisation started in 1991 till 2012. The mutual fund industry in India started in 1963 with the formation of Unit Trust of India. In 1987 other public sector entered the mutual fund industry and in 1993 private sectors entered the industry. The total net resources mobilised by mutual fund including UTI, Banks Sponsored mutual funds, financial institutions sponsored mutual fund, private sector mutual funds registered a secular increase.

C. The Mutual Fund Industry: From Inception to Advancement. Ajay Pratap Yadav (2015): the study focused on various aspects like historical perspective of mutual funds, growth aspects, challenges, issues and growth prospects of Indian mutual fund industry. It reveals that after liberalisation there was a dramatic change in the Indian Financial System. The study also states that mutual fund industry is one of the major results of financial novelty in the Indian context.

D. A Study of Mutual Funds from Different Sectors in India. Sonali Agarwal, Chand Tandon, P.S Ray Chaudheri (2015): the study attempt to analyse and compare a few selected mutual funds to help the investors in fund selection. They pointed out that the main problem with investing in mutual funds is the selection of appropriate security which involves complete market and security analysis along with portfolio management.

E. A Study of Investors Perception Towars Mutual Fund Decision: An Indian Perspective. Rajesh Trivedi, Prafulla Kumar Swain, Manoranjan Dash (2017): the research focus on the relationship between investment decision and factors like liquidity,

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financial awareness, and demography. It is found that low risk funds and liquidity of fund schemes are having impact on the investor's perception for investing in Mutual Fund.

F. Factors Influence Investors Investment in IPO. Narmata.N.Khatri (2017): The study reveals that majority of the investors take brokers advice while investing in IPO. The analysis also indicate that the major problem found by investors is delay in refund and lack of clarity in allotment.

G. A Study on Risk Adjusted Performance of Mutual Fund Industry in India. Shivangi Agarwal, Nawazish Mirza (2017): The study compares the performance of selected schemes with benchmark index to see whether schemes are under performing or over performing the benchmark. The study reveals that the value at risk for equity based mutual funds are higher than that of debt fund which shows that even though the equity funds have higher potential for returns.

H. Performance of Mutual Funds in India. Bilal Pandow (2017): the study points out that after the inception in 1963 the mutual fund industry has sufficient growth in the area of number of und houses, number of schemes, funds mobilised etc. eventhough there is a growth in all these parameters India is far behind compared to other developed and emerging economies of the world. The major challenges faced by India are low penetration ratio, lack of product differentiation, lack of investor awareness etc.

I. Mutual Funds Make The Most Of IPO's. Kumar Shankar Roy (2017): This article by value research states that the IPO's became popular among mutual fund investors in the year 2014. SEBI has introduced various reforms to make the IPO market safer and transparent. It introduced ASBA, reduced the listing time and changed the allotment system. The mutual funds, since April 2017 have invested in quite a few IPO's of which biggest position include ICICI Lombard, HUDCO, AU Small Finance Bank etc.

J. A Prospective Study of Factor That Lead to Investment in Mutual Fund: A Mediating Role of Investor's Perception. Waseem Ul. Hameed, Muhammed Imran, Nadeem Maqbool (2018): the study aims to investigate the various factors influencing on people to invest in mutual funds and examine the mediating role of investor's perception. The results reveal that risk and return, liquidity of assets, demographic factors, convenience and reduction in transaction cost, tax benefits etc. were the key factors and maintained significant relationship with investment in mutual fund.

ANALYSIS AND INTERPRETATION OF DATA

The raging debate on IPO pricing and the growing feeling among analysts and investors that primary markets have become more expensive than secondary markets is a common phenomenon not only in India but even in matured equity markets. But what is more disturbing is the fact that experienced money managers continued to subscribe to IPO issues, despite of the fact that there are conflicting views about pricing and valuation. Since mutual fund institutions have a stated quota in every IPO, they subscribe to issues that are hived off by established brands claiming that it is an exercise to unlock values. At the same time they also subscribe to relatively unknown companies citing potential future growth as the reason for doing so. However, the recent experience is that several IPO's have lost steam after the brisk effervesces on the day of listing. A few others start lagging right from the day of listing

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and continue to lag far behind even the allotment price raising serious doubts about the wisdom of the investment bankers who advised the company and the promoters in fixing IPO price. The spotlight also turns on to underwriters who promote the issue and the money managers who commit the hard earned money of investors to such over-priced asset class and the inexplicable wisdom in doing so.

This paper attempts to go deep into the issue of IPO pricing and its effect on fund instruments that have invested in such issues for this purpose a comparison between allotment price on the one hand and listing price, all-time high and low price, 52 week low and high price and the closing price on 31st October, on the other the results are tabulated to identify the winners and losers who intern determine the good or bad performance of the funds. In going through this exercise, the identified IPO's are chronologically listed with details about the issue size, the price band, allotment price, quota allocation for Qualified Institutional Buyers (QIB), mutual funds, retail investors and high net worth or non-institutional investors.

TABLE 1.1: Table showing IPO details and investor category quotas.

ISSUING COMPANY	ISSUE SIZE IN NO. OF SHARES	ISSUE SIZE IN AMOUNT (IN CRORES)	ALLOCATION OF SHARES TO				PRICE BAND
			QIB	MUTUAL FUND	RII	NII	
ICICI SECURITIES	66925305	401	22016111	1100805	7338703	11008054	519-520
SBI LIFE INSURANCE	120000000	840	43326906	9137681	28993545	9996273	685-700
ICICI LOMBARD	86247187	570	16386966	819348	28677190	12290225	651-661
COCHIN SHIPYARD	33984000	146	16580000	829000	11606000	4974000	424-432
CENTRAL DEPOSITORY SERVICES	35167208	52	6893442	344672	12063523	5170081	145-149
HOUSING AND URBAN DEVELOPMENT CORPORATION	200190000	120	100095000	5004750	70066500	30028500	56-60
BOMBAY STOCK EXCHANGE	15427197	124	3085440	154272	5399519	2314080	805-806
RBL BANK LTD.	53909628	121	10864515	543226	18926183	8111221	224-225
PNB HOUSING FINANCE	38719309	300	7952500	397625	13912500	5962500	750-775
L&T TECH SERVICE LTD	10400000	89	5200000	260000	3640000	1560000	850-860

Table 1.2: Value of mutual fund investments in IPO's at Allotment price

S.NO.	ISSSUING COMPANY	ISSUE SIZE AT	SHARE OF MUTUAL

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		ALLOTMENT PRICE (IN CRORES)	FUNDS (IN CRORES)
1	ICICI SECURITIES	401	20.5
2	SBI LIFE INSURANCE	840	42
3	ICICI LOMBARD	570	28.5
4	COCHIN SHIPYARD	146	7.3
5	CENTRAL DEPOSITORY SERVICES	52	2.6
6	HOUSING AND URBAN DEVELOPMENT CORPORATION	120	6
7	BOMBAY STOCK EXCHANGE	124	6.2
8	RBL BANK LTD.	121	6.05
9	PNB HOUSING FINANCE	300	15
10	L&T TECH SERVICE LTD	89	4.45

All the issues chosen for the purpose had a 5% share for mutual funds that was included in the QIB quota. A quick glance reveals that mutual funds have invested between 2.6 Crores to 42 Crores in these issues. So, it could be interesting to start tracing gains or losses from the time of listing which becomes the first level indicator about the fairness of pricing. This view gains currency because the secondary market are generally known to be a price discovery mechanism and would more or less bring value and market price to an acceptable level of equilibrium. Since the investor reaction to an IPO is reflected at the time of subscription first and listing later, it could be prudent to begin the analysis with a comparison of listing price to allotment price. Ideally a comparison of the allotment price with opening listing price, day's high, day's low and the closing price may be more revealing. But profit booking is an inevitable feature of share price movements on the day of listing, a comparison with the closing price is reasonably justified because the initial euphoria would have given way to informed buying or selling decisions. This is captured in table 1.3 as shown below.

TABLE 1.3: comparison of closing price on listing day with allotment price.

NAME OF THE COMPANY	ALLOTMENT SIZE	ALLOTMENT TO MUTUAL FUNDS	AMOUNT AT ALLOTMENT PRICE	LISTING PRICE CLOSING	PROFIT\ LOSS ON LISTING
ICICI SECURITIES	66925305	1100805	520	297.55	-222.45

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SBI LIFE INSURANCE	120000000	9137681	700	707.55	7.55
ICICI LOMBARD	86247187	819348	661	681.2	20.2
COCHIN SHIPYARD	33984000	829000	432	528.15	96.15
CENTRAL DEPOSITORY SERVICES	35167208	344672	149	261.6	112.6
HOUSING AND URBAN DEVELOPMENT CORPORATION	200190000	5004750	60	72.55	12.55
BOMBAY STOCK EXCHANGE	15427197	154272	806	1069.2	263.2
RBL BANK LTD.	53909628	543226	225	299.4	74.4
PNB HOUSING FINANCE	38719309	397625	775	891.15	116.15
L&T TECH SERVICE LTD	10400000	260000	860	869	9

ICICI securities raised a lot of hope in its run up to the opening of the issue market experts suggested that it could be a good value preposition and gave a 'buy' advice. Typically, the issue was multiple times over-subscribed reflecting investor's faith in the issue. The high degree of anticipation could not be met because the listing was a big disappointment. The share finally closed 40% down at rs.297.55 resulting in a loss of rs.222.45

There were also a few shares that were just above water with very marginal gains such as SBI Life Insurance (rs.7.55) and L&T tech service ltd (rs.9).

The heartening feature was a block buster listing by CDS which closed almost at a premium of 80% at rs.261 (Allotment price rs.149), RBL bank at over 30% closing 299.4 (allotment price rs.225) and Bombay Stock Exchange over 25% closing at 1069 (allotment price rs.806).

As the famous saying goes "markets are crazy". It is very likely that winners may become losers and vice versa in course of time as the markets strive to discover value and price equilibrium. In the medium term the liquidity floating in the system or the lack of it may act as a constraint for investors and so prioritisation becomes the order of the day. Hence, the shares may be trading in a narrow range or looking for breakup levels on the upside or the downside. However, in the long term the shares may settle at prices that are almost synonymous to their values and may take a long time to achieve a break out at the resistance level. Hence, it would be appropriate to compare market price behaviour with the allotment price by drawing a comparison between all-time high and all-time low.

TABLE 1.4: Comparison of all-time high with allotment price

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NAME OF THE COMPANY	ALLOTMENT SIZE	ALLOTMENT TO MUTUAL FUNDS	ALLOTMENT PRICE	ALL TIME HIGH	PROFIT\ LOSS ON LISTING
ICICI SECURITIES	66925305	1100805	520	537.3	17.3
SBI LIFE INSURANCE	120000000	9137681	700	1030	330
ICICI LOMBARD	86247187	819348	661	1399	738
COCHIN SHIPYARD	33984000	829000	432	599	167
CENTRAL DEPOSITORY SERVICES	35167208	344672	149	486	337
HOUSING AND URBAN DEVELOPMENT CORPORATION	200190000	5004750	60	102.3	42.3
BOMBAY STOCK EXCHANGE	15427197	154272	806	1200	394
RBL BANK LTD.	53909628	543226	225	716.4	491.4
PNB HOUSING FINANCE	38719309	397625	775	1717.65	942.65
L&T TECH SERVICE LTD	10400000	260000	860	1855	995

In a bull run markets tend to get exuberant, sometimes irrationally so and even ordinary scripts move up considerably although that may not reflect value. It's also the time when shares trading below the allotment price may break out and start moving upwards for example; ICICI bank broke out from below and touched an all-time high, trading at rs.537, trading at a higher margin, however meagre that may be. All other shares were trading at a very comfortable premium to allotment price as shown in the table.

TABLE 1.5:Comparison of all time low with Allotment price.

NAME OF THE COMPANY	ALLOTMENT SIZE	ALLOTMENT TO MUTUAL FUNDS	ALLOTMENT PRICE	ALL TIME LOW	PROFIT\ LOSS ON LISTING
ICICI SECURITIES	66925305	1100805	520	271	-249
SBI LIFE INSURANCE	120000000	9137681	700	485	-215

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ICICI LOMBARD	86247187	819348	661	638.65	-22.35
COCHIN SHIPYARD	33984000	829000	432	326.9	-105.1
CENTRAL DEPOSITORY SERVICES	35167208	344672	149	180.8	31.8
HOUSING AND URBAN DEVELOPMENT CORPORATION	200190000	5004750	60	29.8	-30.2
BOMBAY STOCK EXCHANGE	15427197	154272	806	446.2	-359.8
RBL BANK LTD.	53909628	543226	225	230.55	5.55
PNB HOUSING FINANCE	38719309	397625	775	370.5	-404.5
L&T TECH SERVICE LTD	10400000	260000	860	712.25	-147.75

The real test for value comes not in a buoyant market but actually in a foreign market. Companies that are capable of holding themselves above the allotment price are once that really possess value all others are also-rans that could produce no value in the true sense of the term. Among the chosen stocks, only 2 companies CDS and RBL could manage to stay above the allotment price. All others were trading below and returned a loss although they could manage a decent listing. Particularly 3 companies PNB housing finance, Bombay Stock Exchange and ICICI securities were all trading under a deep discount to the allotment price indicating significantly lower value. This proves beyond any doubt that these stocks have been clearly over-priced during an Initial public offer.

TABLE 1.6:Comparison of 52 week low with Allotment price.

NAME OF THE COMPANY	ALLOTMENT SIZE	ALLOTMENT TO MUTUAL FUNDS	ALLOTMENT PRICE	52 WEEK HIGH	PROFIT\ LOSS ON LISTING
ICICI SECURITIES	66925305	1100805	520	537.3	17.3
SBI LIFE INSURANCE	120000000	9137681	700	1030	330
ICICI LOMBARD	86247187	819348	661	1399	738
COCHIN SHIPYARD	33984000	829000	432	420	-12

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CENTRAL DEPOSITORY SERVICES	35167208	344672	149	247.95	98.95
HOUSING AND URBAN DEVELOPMENT CORPORATION	200190000	5004750	60	47.8	-12.2
BOMBAY STOCK EXCHANGE	15427197	154272	806	648	-158
RBL BANK LTD.	53909628	543226	225	716.4	491.4
PNB HOUSING FINANCE	38719309	397625	775	1038	263
L&T TECH SERVICE LTD	10400000	260000	860	1820	960

Shares tend to reach new peaks in a Bull Run and test new loss during a bearish phase hence, a comparison of the 52 week high prices and low prices would also be very revealing, when it comes to value picking. In that sense 4 shares namely L&T (rs.960), ICICI Lombard (rs.738), RBL Bank (rs.491) and SBI Life Insurance (rs.330) have all managed to maintain their prices and generate greater returns to the stock holders. On the other hand, even during a market uptrend atleast 3 shares continued to trade low and below the allotment price indicating clearly that the issue of IPO overpricing cannot be dismissed off hand.

TABLE 1.7:Comparison of 52 week low with Allotment price.

NAME OF THE COMPANY	ALLOTMENT SIZE	ALLOTMENT TO MUTUAL FUNDS	ALLOTMENT PRICE	52 WEEK LOW	PROFIT\ LOSS ON LISTING
ICICI SECURITIES	66925305	1100805	520	277.35	-242.65
SBI LIFE INSURANCE	120000000	9137681	700	515.55	-184.45
ICICI LOMBARD	86247187	819348	661	785	124
COCHIN SHIPYARD	33984000	829000	432	326.9	-105.1
CENTRAL DEPOSITORY SERVICES	35167208	344672	149	180.8	31.8
HOUSING AND URBAN DEVELOPMENT CORPORATION	200190000	5004750	60	29.8	-30.2

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BOMBAY STOCK EXCHANGE	15427197	154272	806	446.2	-359.8
RBL BANK LTD.	53909628	543226	225	230.55	5.55
PNB HOUSING FINANCE	38719309	397625	775	370.5	-404.5
L&T TECH SERVICE LTD	10400000	260000	860	1321	461

A 52 week low price for a share occurs either when markets are falling or when the company is doing badly. However, the real mettle of a script in terms of intrinsic value is tested and proven only during this time. Good companies manage to stay much above the allotment price even if their shares are trading at the 52 week low. On the other hand scripts that went up on account of a strong upward current are pulled down so easily in a down trend and always trade below the allotment price, unless they have managed to create value in the mean-time. In line with the general trend, 6 of the 10 shares were trading much lower than the allotment price because of the bearish phase. The best performers like PNB Housing Finance and Bombay Stock Exchange that traded at a premium of more than 20% to allotment price on listing, dwindled down to more than 40% lower than the allotment price (PNB Housing Finance from 775 to 370.5 and BSE from 806 to 446.2)

The other 4 stocks that were already doing not too well even in the Bull Run, continued to perform poorly like ICICI securities, SBI Life Insurance, Cochin Shipyard and Housing and Urban Development Corporation.

The 4 value stocks led by L&T tech services ltd managed to hold on to their value although down a little as compared to their previous highs. Central Depository Services, ICICI Lombard and RBL Bank ltd.were the other top gainers even during times of distress. Although they were trading much lower than their best price.

TABLE 1.8: Comparison of current market price with Allotment price.

NAME OF THE COMPANY	ALLOTMENT SIZE	ALLOTMENT TO MUTUAL FUNDS	ALLOTMENT PRICE	CURRENT MARKET PRICE	PROFIT\ LOSS ON LISTING
ICICI SECURITIES	66925305	1100805	520	510.45	-9.55
SBI LIFE INSURANCE	120000000	9137681	700	991.5	291.5
ICICI LOMBARD	86247187	819348	661	1342.8	681.8
COCHIN SHIPYARD	33984000	829000	432	389.555	-42.445
CENTRAL DEPOSITORY SERVICES	35167208	344672	149	232.5	83.5

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HOUSING AND URBAN DEVELOPMENT CORPORATION	200190000	5004750	60	41.15	-18.85
BOMBAY STOCK EXCHANGE	15427197	154272	806	554.65	-251.35
RBL BANK LTD.	53909628	543226	225	310.1	85.1
PNB HOUSING FINANCE	38719309	397625	775	536.35	-238.65
L&T TECH SERVICE LTD	10400000	260000	860	1503.65	643.65

Although history may be interesting, it's only the current performance that generates profits. This is because book profits are only on paper whereas only booked profits translate into cash and value. Viewed from that angle, 6 out of the 10 stocks were trading below the allotment price as on 31st October 2019 casting a shadow over the issue of IPO pricing or even over pricing. Both Bombay Stock Exchange and PNB Housing Finance were trading at around 70% of the allotment price on the date mentioned above (BSE allotment price- 806 and traded price on 31st October is 554.65, PNB allotment price- 775 and traded price on 31st October is 536.35) the other 4 stocks were not far behind and they continued their dismal performance till the end of October (ICICI Securities down 9.55, cochin shipyard down 42.445 and Housing and Urban Development Corporation down 18.85

The above analysis that involved comparison of allotment price with various prices as resulted in identifying a mixed bag of winners and losers this classification was purely based on the ability of a script to hold itself above the allotment price and generate value both in good and bad times. The other category of scripts were those that could never justify the price paid for allotment either in the past or today. These are captured in the two tables shown below.

TABLE 1.9: The Winners

WINNERS	ALLOTMENT PRICE	ALL TIME HIGH	ALL TIME LOW	52 WEEK HIGH	52 WEEK LOW	CURRENT PRICE	UPSIDE
SBI LIFE INSURANCE	700	1030	485	1030	515	991.5	41%
ICICI LOMBARD	661	1399	638.65	1399	785	1342.8	103%
CENTRAL DEPOSITORY SERVICES	149	486	180.8	247.95	180.8	232.5	55%
RBL BANK LTD	225	716.4	230.55	716.4	230.55	310.1	37%

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L&T	860	1855	712.25	1820	1321	1503.65	74%

The above table is self-explanatory and clearly indicates the winners with percentage gains over allotment price in terms of the current price (31st October). Hence they have settled the issue of IPO pricing as fair and reasonable

TABLE 1.10: The Losers

LOSERS	ALLOTMENT PRICE	ALL TIME HIGH	ALL TIME LOW	52 WEEK HIGH	52 WEEK LOW	CURRENT PRICE	DOWN SIDE
ICICI SECURITIES	520	537.3	271	537.3	277.35	510.45	1.9%
COCHIN SHIPYARD	432	599	326.9	420	326.9	389.55	9.9%
HOUSING AND URBAN DEVELOPMENT CORPORATION	60	102.3	29.8	47.8	29.8	41.15	31.6%
BOMBAY STOCK EXCHANGE	806	1200	446.2	648	446.2	554.65	31.2%
PNB HOUSING	775	1717.65	370.5	1038.95	370.5	536.35	30%

The table clearly brings out the fact that two of the 5 scripts have lost over 30% as compared to allotment price going by the closing price on 31st October. The act that 52 week high and low as well as the all-time low were also below the allotment price, is a clear pointer to the fact that their initial offer price may have been grossly over-valued (Housing and Urban Development Corporation-31.6% and Bombay Stock Exchange -31.2%) as for the other 3 companies they are just hovering below the allotment price and the sincere hope is that they may break out and move upwards in the medium term or long term. However the fact still reminds that even after 18 months of listing they continue to be under water raising critical questions about not only the pricing of the IPO, but also the wisdom of money managers who committed large sums of money to these issues without undertaking a thorough analysis of possible future valuations.

TABLE 1.11: The Effect of IPO Subscription on Mutual Fund Performances

S. NO.	NAME OF THE COMPANY	MUTUAL FUND INVESTMENT AT ALLOTMENT PRICE (in Crores)	INVESTMENT VALUE AT (IN CRORES)				
			LISTING PRICE	ALL TIME HIGH	ALL TIME LOW	52 WEEK HIGH	52 WEEK LOW	CURRENT PRICE
1.	ICICI SECURITIES	57.24	32.75	59.14	29.83	59.14	30.53	56.19

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2.	**SBI LIFE INSURANCE**	**639.63**	**646.53**	**941.18**	**443.17**	**941.18**	**471.09**	**906**
3.	**ICICI LOMBARD**	**54.15**	**55.81**	**114.62**	**52.32**	**114.62**	**64.31**	**110**
4.	**COCHIN SHIPYARD**	**35.81**	**43.78**	**49.65**	**27.1**	**34.81**	**27.1**	**32.29**
5.	**CENTRAL DEPOSITORY SERVICES**	**5.13**	**9.01**	**16.75**	**6.23**	**8.54**	**6.23**	**8.01**
6.	**HOUSING AND URBAN DEVELOPMENT CORPORATION**	**30.02**	**36.30**	**51.19**	**14.91**	**23.92**	**14.91**	**20.59**
7.	**BOMBAY STOCK EXCHANGE**	**12.43**	**16.49**	**18.51**	**6.88**	**9.99**	**6.88**	**8.55**
8.	**RBL BANK LTD.**	**12.22**	**16.26**	**38.91**	**12.52**	**38.91**	**12.52**	**16.84**
9.	**PNB HOUSING FINANCE**	**30.81**	**35.43**	**68.29**	**14.73**	**41.27**	**14.73**	**21.32**
10.	**L&T TECH SERVICE LTD**	**22.36**	**22.59**	**48.23**	**18.51**	**47.32**	**34.34**	**39.09**

The table shown above vividly captures the effect of subscription to Initial Public Offer by mutual funds on their performance. Undoubtedly the money managers earn incentives based on the funds under their management and would strive to achieve the best possible performance not only for the sake of investors but also for their own sake. However, losing money by subscribing to IPO's doesn't seem to have really affected their investment decisions and allocation of funds to IPO subscription the disturbing results are briefly summarised as follows:

1. ICICI securities was viewed with a lot of hope by investors as a script that would not only generate return on listing, but also lead to long term wealth creation. Unfortunately the stock lost almost 40% at closing prices on listing and ended at around 32 Crores as against 57 Crores of investment made by all the mutual funds put together.
2. The markets were not all that bad on 24th April 2018 when the company made a debut on Indian Bourses. However it was a poor opening and even the day's high could not come anywhere near the allotment price, leave alone surpassing it.
3. The asset managers were thinking of cashing out on listing were either disappointed or knew it all along and were prepared to wait for a medium term optic. The result however was a combined loss of 25 Crores for all the funds put together.
4. Other than L&T Tech Services that could only manage a flat listing, all the other issues had a marginal or premium listing with CDS on top of the list producing a staggering 80% return on the first day. If the fund managers had either cashed out or stayed invested, they would have still made some money from the script.
5. A comparison of the allotment price with all- time high of each script reveals that all of them were above board and had no serious problems from the market.

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6. Except CDS all the shares went down below the allotment price when compared with all-time low. This is a clear indication that there may have been a possible over valuation of price at the time of IPO. Most of the companies listed above traded at least 40% down as compared to allotment price.
7. 3 companies HUDCO, BSE, Cochin Shipyard all traded below the allotment price even when they managed to touch an all- time high in 52 weeks. Consequently funds invested in these companies lost a total of 14 Crores in terms of the traded price compared with allotment price. The other companies were able to fare better with SBI on top producing more than 40%.
8. The real test came when the shares touched a 52 week low that spilled into the year 2019 causing significant loss to the portfolio. ICICI Securities (rs.26.71 cr.), SBI Life Insurance (rs.168.54 cr.), Cochin Shipyard (rs.27.05 cr.), HUDCO (rs.15.11 cr.) BSE (rs.5.55 cr.) and PNB Housing Finance (rs.16.08 cr.).
9. The disturbing result is that all the funds together must have lost around 259 Crores.
10. Even at current prices as on 31st October 2019 all the funds together are under a loss totalling 27.37 Crores.
11. The nagging question of whether the funds have paid more from investor money to promoters of company at the time of Initial Public Offering, has been partly answered in this analysis. Except in the case of CDS, SBI Life, L&T and RBL, all the other stocks are still trading below the allotment price.
12. This has virtually ended all hopes of recovery for the remaining scripts because they are unable to break out to the higher levels even during a bull market run.

FINDINGS

A critical evaluation of market data for the chosen shares revealed some interesting but also disturbing patterns that suggest a possible over pricing of IPO issues. On top of that the inexplicable decision of fund managers to continue the practice of seeking allotment from the IPO quota in spite of the fact that primary market tend to be more expensive than the secondary market, is also incomprehensible. The resulting loss to the fund under management is to be born only by the innocent investors who plays their entire faith on experienced money managers for return and capital appreciation. Hence it becomes the responsibility of the fund managers to not only try and create wealth but also ensure that there is no wealth erosion on account of wrong choices of investment.

The results of data analysis are summarised as findings below;

1. Theworst fears of over pricing are vindicated when the scripts starts stuttering even on the listing da. It would be much easier to blame market conditions for such an eventuality but value scripts trade at a premium on the day of listing and lifts the mood of the market and makes it bullish. There were at least 3 stocks from the chosen 10 that faced this problem and continued to languish even during good times as is the case today.
2. ICICI securities, of all the scripts, was a big disappointment and triggered all doubts about valuation and IPO pricing. The script continued to perform badly as on 31st October and traded at a discount to the allotment price.
3. Scripts like BSE, PNB Housing Finance and even HUDSCO showed no signs of scaling up and the brunt o the burden was born by mutual fund investors. Except during a period of all time high trading prices, these scripts were mostly trading at a discount to the allotment price.

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4. A few purple patches in the form of good listing and continuously trading at a premium was the feature of stocks like CDS, RBL Bank, L&T Tech Service Ltd. and SBI Life Insurance. But even these stocks are trading at a discount to the allotment price at the current levels.
5. The unspoken doubt about the wisdom of fund managers to invest in IPO's after repeated debates is probably anybody's guess. If the optimism of high value listing or future trading is expected to counter balance the risk of possible loss from over pricing the optimism is certainly misplaced.
6. The Chinese whispers about a possible tacit understanding is gaining ground and getting louder. This cannot be simply dismissed off hand because every IPO that falls into the pit is talked about after the damage is done. Moreover the process seems to continue without an effort to put in more focused research into fundamentals.
7. From IPO's that hit the market at the wrong time could not procure even the minimum subscription as it happened in the case of MRMGF and Wokkard Hospitals in February 2008. This was preceded by a 2.5 Billion mega issue by Reliance power in January 2008. The issue was 72 times over-subscribed, sucking out 180 Billion of liquidity from the market. This share was priced at rs.430 and it is nowhere near the price even by the most fertile imagination.
8. The other issue was by Cairn Energy India Ltd. which was priced at rs.180 and took more than 2 years from the day of listing even to come closer to the price, let alone overtaking it.
9. There are plenty of similar instances of ambitiously overpriced IPO's that are not even actively trading today. If that is the case who is accountable for the losses incurred by mutual fund investments into these shares, is a long pending question that is yet to be answered.
10. While we see AUMs growing from 5 lakh Crores in late 2007 to over 26lakh Crores in October 2019, the act still remains that the over-priced IPO's may have significantly eroded investor value in these funds. If so, is there a provision for penalising wrong investment decisions like incentivising the fund managers for good performance?
11. Answer to these very delicate but most relevant questions should be answered not only through transparent disclosures that also adhere into high degree of ethics in reporting.

CONCLUSION

The investors in India and else were in the world are already in a dilemma because deposits in banks no longer are low risk investments. On the other hand mutual fund investments are subject to market risk is also widely advertised with a caution to read the offer documents carefully before investing. Investments in direct equity is also not an option unless the investor choses to stay invested for a long time like over 10 or 15 years to realise the benefits. Although one reads the success stories of long time investors like Warren Buffet, George Soress or Raymond Balio it is never take seriously in practice. Investors should carefully evaluate the fund managers and the fund instruments as much as they can before making a decision. The advantage of rupee cost averaging can be fully leveraged if the investor is prepared to take the Systematic Investment Plan route for typically long periods of time mainly 10 years or more. Young investors who have just joined jobs should take savings as a habit initially and get addicted to it over a period of time. Since mutual funds are managed by professional money managers, questioning their wisdom may not be the right thing to do but at the same time leaving them scot free and unaccountable is also meaningless. The watch dog SEBI is already monitoring all the 43 Asset Management

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Companies doing business in India, but also puts checks and balances for the benefit of retail investors. The fund manager for his part should inculcate a sense of social commitment in his approach to investment decisions.

When markets are bullish there is a swarm of IPO's and all of them get subscribed. The consequent liquidity dry up may render the secondary markets helpless as the greedy bears take control. If this trend can be reversed, the issue of over pricing will never surfaced. Until then the debate about whether it is primary or secondary markets that are expensive will continue with no conclusive proof or agreement.

It is essential to safeguard the interest of retail investors and make all efforts to preserve their capital and multiply it into wealth to fulfil their future dreams. For this to happen the mind-set of the fund managers should change and become socially focused instead of self-driven

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