

FUNDAMENTAL ANALYSIS OF IPO: A COMPARATIVE STUDY OF INFRASTRUCTURE SECTOR

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ABSTRACT

An initial public offering (IPO) is the sale of a company's stock to the public for the first time. The primary impetus for an IPO is generally either to raise capital or to offer an exit strategy to some of the firms existing owners, but several other motivations and considerations also influence a firm's decision to go public.

Fundamental analysis pays deep attention to a company's debt-equity ratio, earning per share, dividend payout, profit margins, interest, asset & dividend coverage, sales penetration, market share, product & market innovation and the promoters track record. It is conservative, non-speculative approach of evaluating equity shares on value based method and consists of three phases: economic analysis, industry analysis and company analysis.

The current scenario of Infrastructure industry in India is positively concerned of developing and creating better Infrastructure to provide benefits of those to the general public for their living standards, wellness and aims to know that Infrastructure companies are better in growth and how customers know about to invest in better Infrastructure company.

This study is an attempt to evaluate equity shares on value based method and consists of three phases: economic analysis, industry analysis and company analysis. This study also analyze the various factors of the industry like cost structure & profitability, government policy, competition, labour & R&D and economic factors like foreign exchange position, inflation, interest rate, deficit slowdown & taxation whether it impact on the fundamentals of the company or not.

Keywords: Investors, Rational, EPS, DER, ROA, DPS, ROI, Infra, ANOVA.

INTRODUCTION

IPO also known as Stock Market Launch is done by Privately Owned Company looking to become publicly traded wherein they offer their stock for raising long term funds to expand their capital, by inviting public to buy its stock and lend them money required by them in return of the stock offered. The process involve appointing of an underwriting firm, institutional investor to whom the offer is made that in turn invites public through stock exchange for the very first time. Since India has become a global market hub and the rapid growth and development is further contributed by the firms who raise the funds from the IPOs through the capital market.

In present scenario infrastructure is an indication of nation success and development. With government effort in development of urbanization and involvement of foreign investments Infra Industry in India is growing at a stupendous pace in its different sectors. Considering the importance of infrastructure the government of India has taken initiatives to develop the infrastructure sector, with major emphasis on construction, engineering, IT, entertainment, textiles, food, and utility etc. The Infrastructure industry in India is highly fragmented and has about 300,000 construction companies operating nationwide and reported an estimated growth of 6.78% year-on-year in 2016. The government has allowed

100% foreign equity in the construction industry. Among the major infrastructure projects are the US\$7-8bn India-Iran gas pipeline, the US\$2.8bn construction of two power plants, the US\$2.3bn power project in Tamil Nadu, and the US\$ 977.41 million of National Highway Development Programme etc. In addition to these projects GOI plans big push for infrastructure in 2020 onward. To compete globally government is planning a raft of new strategic efforts to pitchfork investment in infrastructure to about 9 per cent of GDP in the coming five years in comparison to 4.5 per cent of GDP currently. An estimated investment of 500 billion US dollars is required to upgrade India's highways, ports, airports, and power and telecom infrastructure to compete international standard in the next five years. This is more than 10 times of the current level of investment in infrastructure projects.

In India Heavy Engineering Industry play important role and is one of the largest segments of Infrastructure Industry. It embraces complete range of industries such as Turbines, Generators, Heavy Electricity Machinery, Transformers, Switchgears and Textile Machinery etc. all of which are essential infrastructure for the development of industrial sector. For effective and efficient industrial development the utility commodities like the switchgear and control gear, air circuit breakers, MCBs, switches, rewire able fuses and HRC fuses with their respective fuse bases, holders and starters are

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produced. Construction machinery, diesel engines, tractors, transport vehicles equipment for irrigation projects, cotton textile and sugar mill machinery are other manufactured objects of great demand of the Infrastructure Industry. In addition to this there are some major strategic areas where these are in use are the petrochemical complexes, chemical plants integrated steel plants, multi-crore projections for power generation like nuclear power stations and, non-ferrous metal units etc. In India BHEL are undisputed leader in engineering and manufacturing sector and manufacturing over 180 products under 30 major product groups and catering the core sectors of the Indian Economy.

The GOI has set a growth rate target of 9 per cent with emphasis on a broad-based and comprehensive approach that would lessen inequalities across regions and communities and improve the quality of life for all. Total investment in infrastructure is estimated to be around US\$ 494.43 billion. Center share of investment is expected to amount US\$ 166.59 billion and state government is expected to invest US\$ 128.95 billion. Total public sector investment is expected to be around US\$ 296.11 billion. Private sector will play the lead role in investment and is expected to account for over 65 per cent of total investment in telecom, ports and airport sectors during the Eleventh Plan. Improvement in rural infrastructure is one of the chief indicators of a nation's development. To maintain balance development in nation the government is also likely to announce a new package for rural roads by providing an additional US\$ 1.02 billion under the existing Bharat Nirman programme, Out of the total projected investment of US\$ 301.37 billion to be incurred by the centre and the states in the Eleventh Plan, US\$ 85.53 billion would be spent entirely towards improvement of rural infrastructure. Moreover; the World Bank has said that it will lend US\$ 14 billion to India by 2020 for infrastructure development.

REVIEW OF LITERATURE

Kiran & Phil (2011) analyze the influence of factors on IPOs pricing performance. The factor that influences the initial returns are Subscription level, Issue size, Listing lead time and Age of the company. The fall in issuance of IPOs in 2008 is the slowdown in India due to recession in developed economies. The underpricing was more severe in the short run periods, i.e., from the listing day to the six months after the listing. However, the long run IPOs tends to move to their intrinsic value or true value wiping out much of the underpricing. This study shows that if an investor buys and holds the equities, he was going to earn over the considered time. There was no clear pattern of IC disclosure practices of Indian companies in IPO prospectus. Within the categories of industry, the highest disclosure was by pharmaceutical and research companies followed by information technology companies.

Bansal & Khanna (2012) analyzes that the fresh issues on the BSE are subject to underpricing, consistent with developed and other emerging markets. In this respect, the potential

investor will pursue the strategy of buying the new issues at the offer and selling them immediately on the initial day of trading. Notwithstanding, the study also reveals at investors should not hold new issues very long as the highest component of the initial returns was found on the first day of trading and that the average original returns turn negative on the fourth day of trading.

Sehgal & Sinha (2013) investigated 432 new IPOs between the time period April 2001 to December 2011 and examined the two main propositions for the Indian Equity Market; important factors that determine short-run underpricing of IPOs and impact of IPOs' mispricing on investment banks' reputation. They found that the five variables i.e., number of uses of IPOs' proceeds, number of times an IPO issue subscribed, Industry PE ratio, Listing Delay and dummy for companies representing new economies are positively related to the short run initial return on IPOs, while four variables, i.e., company size, investors' sentiment, investment banks' reputation defined in terms of share in IPO proceeds and dummy for private companies' IPOs bear a negative relationship with initial return. It was further observed in the study that IPOs mispricing significantly impacts Investment Banks reputation and hence pricing of IPOs has long term implications for policy makers, market intermediaries, as well as investors.

Bhatia & Agarwal (2015) discussed about the intellectual capital disclosures in Initial Public offering (IPO) prospectus of Indian companies and also to examine the factors that influence the intellectual capital disclosure. The regression results reveal that of all the independent variables studied i.e. Board size, Board independence, Size, Age, Leverage, Managerial ownership and Industry differences; Intellectual capital disclosure is influenced by industry differences and there was positive and significant relationship between disclosure index and pharmaceutical and research companies. The purpose of any disclosure system was to 'provide information that is useful to present and potential investors and creditors and others in making rational investment credit and similar decisions.

Shrivastav & Goel (2017) assessed the performance of big and small size IPOs introduced during 2006-2015 on NSE. The interests of IPO investors are generally influenced by the current market trend and this in turn influence the performance of the IPOs. It was analyzed that on an average 10.28% of day listed gain earned by these IPOs whereas these IPOs posted 9.67% return for one month and one-year gain was 10.30%. 80% of big size IPOs were underpriced and 20% small size IPOs were underpriced. The performance of the small size IPOs in the long run then it is way better than the big size. The IPOs are generally underpriced so that it could leave a room for the investors as well as the market to assess the correct price for the IPO and in this assessment and correction further leave a scope for the investors to gain. The IPOs are generally underpriced so that it could leave a room for the investors as well as the market to assess the correct price for the IPO and in

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OBJECTIVES OF THE STUDY

To analyze the various ratios of the past five years of sample companies based on market capitalization.

Hypotheses

H₁: EPS position of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure, and Pratibha Infrastructure does differ significantly.

H₂: DPS position of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure and Pratibha Infrastructure does differ significantly.

H₃: ROI position of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure and Pratibha Infrastructure does differ significantly.

H₄: ROA position of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure and Pratibha Infrastructure does differ significantly.

H₅: DE position of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure and Pratibha Infrastructure does differ significantly.

RESEARCH METHODOLOGY

Methodology used for Data Collection

The present study adopts analytical and descriptive research design with convenience sampling based on the secondary data collected from the annual reports and the balance sheet, published by the companies' respective websites. The data has been extracted from the official website of NSE for the period April 2012-March 2017. Number of IPOs listed in NSE from the year 2012-2017 is total of 134 firms out of which the sample selection used in this study consists of five Infrastructure companies on account of having lowest market capitalization.

Technique

Ratio Analysis: Ratios have been calculated for past five years for the purpose of analysis. Ratios being designed are named as: Earning Per Share (EPS), Debt Equity Ratio (DER), Return on Assets (ROA), Dividend Per Share (DPS), Return On Investment (ROI),

Analysis of Variance (ANOVA): The statistical tool that is used for testing hypothesis and interpreting the results is one-way Analysis of Variance (ANOVA).

Period of the Study

The Study was undertaken to fundamental analysis of IPO, so we have taken last five years (2012 -2017) data.

DATA ANALYSIS

Fundamental analysis is method of scientific analysis as it tries to estimate the intrinsic worth of the company. It efficiently analyses the basic fundamental criteria of the company like sales, profits and balance sheet studies. It pays deep attention to a company's debt-equity ratio, earning per share, dividend payout, profit margins, interest, asset and dividend coverage, sales penetration, market share, product and market innovation and the promoters track record. It is conservative, non-speculative approach of evaluating equity shares on value based method and consists of three phases: economic analysis, industry analysis and company analysis. We have analyzed five companies in the field of Infrastructure sector at the basis of Fundamental analysis.

In fundamental analysis we find out the comparative balance sheet, profit & loss account of each company. Five companies as given below:

- (a) Atlanta
- (b) Gayatri Project
- (c) Supreme Infrastructure
- (d) Unity Infrastructure
- (e) Pratibha Infrastructure

EARNING PER SHARE (EPS)

Earning per share is the measure of the company's ability to generate after tax profits per share held by the investor.

Table 1 Earning Per Share of the Sample Companies

Company/ Year	Atlanta	Gayatri Project	Supreme	Unity	Pratibha
2012-13	4.83	0	11.70	6.79	18.25
2013-14	5.77	17.52	38.73	11.87	40.45
2014-15	12.97	19.65	6.85	23.16	8.58
2015-16	10.73	23.56	12.25	31.65	14.30
2016-17	8.90	38.89	13.82	44.92	20.53
Average	8.64	19.92	5.10	23.68	7.75

Table 1 is showing the EPS of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure, Pratibha Infrastructure. The average EPS of Unity Infrastructure is greater than all other companies during the entire study period. EPS of Unity Infrastructure was substantially higher than Atlanta, Gayatri, Supreme, and Pratibha. On an average Unity Infrastructure earned EPS of 23.68 followed by Gayatri (19.92), Atlanta (8.64), Pratibha Infrastructure (7.75), and lastly Supreme Infrastructure (5.10). Thus the analysis reveals that Unity Infrastructure was most efficient company in generating earning per share.

The EPS position of sample companies are compared and tested with One Way ANOVA. The details of the ANOVA result are shown in Table 2.

Table 2 One-Way ANOVA for Earning Per Share

Sources of Variation	Sum of Squares	df	Mean Square	F	5% F-limit
Between Groups	655.185	4	163.796	1.099	2.87
Within Groups	2980.103	20	149.005		
Total	3635.288	24			

Inference: Since the calculated value of F is 1.099 which is less than the table value of 2.87 (CV < TV at 5% significance level), the hypothesis H1 is accepted and hence it is concluded that the earning per share ratio does not differ significantly.

DIVIDEND PER SHARE (DPS)

Dividend per share is similar to earnings per share. DPS shows how much the shareholders were actually paid by the way of dividends.

Table 3 Dividend per Share (in %) of the Sample Companies

Company/Year	Atlanta	Gayatri Project	Supreme	Unity	Pratibha
2012-13	0	0	0	1.5	0
2013-14	0.39	2.5	1	1.5	0
2014-15	0.74	1.5	0.31	2.51	0
2015-16	1.25	2	0.48	2.99	2.00
2016-17	1.38	2.50	1.49	4.00	2.00
Average	0.94	2.12	0.82	2.50	2.00

Table 3 is showing the DPS of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure, Pratibha Infrastructure. The average DPS of Unity Infrastructure is greater than all other companies during the entire study period. DPS of Unity Infrastructure was substantially higher than Atlanta, Supreme Infrastructure, Gayatri Project, and Pratibha Infrastructure. On an average Unity Infrastructure DPS of 2.50 followed by Gayatri Project (2.12), Pratibha Infrastructure (2.01), Atlanta (0.94), and lastly Supreme Infrastructure (0.82). Thus the analysis reveals that Unity Infrastructure was most efficient company in respect of dividend per share.

The DPS position of sample companies are compared and tested with One Way ANOVA. The details of the ANOVA result are shown in Table 4.

Table 4 One-Way ANOVA for Dividend per Share

Sources of Variation	Sum of Squares	df	Mean Square	F	5% F-limit
Between Groups	12.834	4	3.208	3.917	2.87
Within Groups	16.384	20	0.819		
Total	29.217	24			

Inference: Since the calculated value of F is 3.917 which is more than the table value of 2.93 (CV > TV at 5% significance level), the hypothesis H2 is rejected and hence it is concluded that the dividend per share ratio does differ significantly.

RETURN ON INVESTMENT (ROI)

Return on investment of a company measures the ability of the management of the company who takes the decision of investment to generate adequate returns for the capital invested. The ratio is calculated and is expressed in percentage terms.

Table 5 Return on Investment

Company/Year	Atlanta	Gayatri Project	Supreme	Unity	Pratibha
2012-13	769.76	693.51	0	188.61	744.89
2013-14	56.96	298.97	0	190.22	1651.02
2014-15	162.52	545.98	0	324.43	41.64
2015-16	85.48	58.66	105.61	70.59	171.68
2016-17	24.13	30.74	104.08	135.58	33.09
Average	219.77	325.57	41.05	181.89	155.59

Table 5 is showing the ROI of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure, Pratibha Infrastructure. The average ROI of Gayatri Project is greater than all other companies during the entire study period. ROI of Gayatri Project was substantially higher than Atlanta, Supreme Infrastructure, Unity Infrastructure and Pratibha Infrastructure. On an average GAYATRI earned ROI of 325.57 followed by Atlanta (219.77), Unity Infrastructure (181.89), Pratibha Infrastructure (155.59) and lastly Supreme Infrastructure (41.05). Thus the analysis reveals that GAYATRI was most efficient company in generating return on investment.

The ROI position of sample companies are compared and tested with One Way ANOVA. The details of ANOVA result are shown in Table 6.

Table 6 One-Way ANOVA for Dividend per Share

Sources of Variation	Sum of Squares	df	Mean Square	F	5% F-limit
Between Groups	658222.6	4	164555.645	1.221	2.87
Within Groups	2696226	20	134811.206		
Total	3354447	24			

Inference: Since the calculated value of F is 1.221 which is less than the table value of 2.87 (CV < TV at 5% significance level), the hypothesis H3 is accepted and hence it is concluded that the return on investment ratio does not differ significantly.

RETURN ON ASSETS (ROA)

Return on assets is the indicator about how profitable a company is. The ratio is calculated and is expressed in terms of time. Table 7 is showing the ROA of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure, Pratibha Infrastructure. The average ROA of Unity Infrastructure is greater than all other companies during the entire study period. ROA of Unity Infrastructure was substantially higher than others. On an average Unity Infrastructure earned ROA of 10.78 followed by Gayatri Project (5.43), Pratibha Infrastructure (4.97), Atlanta (4.28) and lastly Supreme Infrastructure (3.67). Thus the analysis reveals that Unity Infrastructure was most efficient company in generating return on assets. The ROA position of sample companies are compared and tested with One Way ANOVA. The details of ANOVA result are shown in Table 8.

Table 7 Return on Assets (in Times) of the Sample Companies

Company/Year	Atlanta	Gayatri Project	Supreme	Unity	Pratibha
2012-13	2.54	7.52	7.31	7.78	14.02
2013-14	2.81	2.77	23.44	11.42	17.73
2014-15	6.98	5.09	18.05	14.45	9.73
2015-16	5.10	5.52	15.51	10.79	8.97
2016-17	3.97	6.22	11.04	9.45	10.85
Average	4.28	5.43	3.67	10.78	4.97

Table 8 One-Way ANOVA for Return on Assets

Sources of Variation	Sum of Squares	df	Mean Square	F	5% F-limit
Between Groups	420.380	4	105.096	8.147	2.87
Within Groups	257.989	20	12.899		
Total	678.368	24			

Inference: Since the calculated value of F is 8.147 which is more than the table value of 2.87 (CV > TV at 5% significance level), the hypothesis H4 is rejected and hence it is concluded that the return on assets ratio does differ significantly.

DEBT EQUITY RATIO (DE)

Debt equity shows how much a company is leveraged (in debt) by comparing what is owed to and what is owned. The ratio is calculated and is expressed in terms of times.

Table 9 Debt Equity Ratio (in times) of the Sample Companies

Company/Year	Atlanta	Gayatri Project	Supreme	Unity	Pratibha
2012-13	2.79	2.90	2.70	1.56	0
2013-14	4.00	3.11	1.35	1.33	1.46
2014-15	2.35	2.74	0.57	0.78	0.53
2015-16	1.28	2.02	1.07	0.29	1.40
2016-17	1.25	2.52	0.85	0.78	0.71
Average	2.34	2.66	1.31	0.95	0.82

Table 9 is showing the Debt Equity Ratio of Atlanta, Gayatri Project, Supreme Infrastructure, Unity Infrastructure and Pratibha Infrastructure. The average DE of Gayatri Project is greater than all other companies during the entire study period. DE of Gayatri Project was substantially higher than Atlanta, Supreme Infrastructure, Unity Infrastructure and Pratibha Infrastructure. On an average Gayatri Project DE is 2.66 followed by Atlanta (2.34), Supreme Infrastructure (1.31), Unity Infrastructure (0.95) and lastly Pratibha Infrastructure (0.82). Thus the analysis reveals that Gayatri Project was most efficient company in generating debt equity. The DE position of sample companies are compared and tested with One Way ANOVA. The details of the ANOVA result are shown in Table 10.

Table 10 One-Way ANOVA for Debt Equity Ratio

Sources of Variation	Sum of Squares	df	Mean Square	F	5% F-limit
Between Groups	13.902	4	3.475	6.181	2.87
Within Groups	11.246	20	0.562		
Total	25.148	24			

Inference: Since the calculated value of F is 6.181 which is more than the table value of 2.87 (CV > TV at 5% significance level), the hypothesis H5 is rejected and hence it is concluded that the debt equity ratio does differ significantly.

FINDINGS & CONCLUSION

- Earning per share of Unity Infrastructure (23.68) is significantly higher throughout the period 2012-17 and outperformed other companies in terms of Earning per share and lies on the top position. Followed by Gayatri Project (19.92), Atlanta (8.64), Pratibha Infrastructure (7.75) and Supreme Infrastructure (5.10) registered lowest among the five sample companies. The EPS position of sample companies are compared and tested with One Way ANOVA. The calculated value of F is 1.099 which is less than the table value of 2.87. It is concluded that the EPS ratio does not differ significantly and the hypothesis is accepted.

2. Dividend per share of Unity Infrastructure (2.50) is among top throughout the period 2012-17 with maximum average DPS over the period 2012-17 than others. Followed by Gayatri Project (2.12), Pratibha Infrastructure (2.01), Atlanta (0.94), and Supreme (0.82) have least DPS among the five sample companies with minimum average DPS over the period concerned. The DPS position of sample companies are compared and tested with One Way ANOVA. The calculated value of F is 3.917 which is more than the table value of 2.93. It is concluded that the DPS ratio does differ significantly and the hypothesis is rejected.
3. Return on Investment of Gayatri Project (325.57) outperformed other companies in terms of Return on Investment and lies on the top position throughout the period with maximum average ROI over the period 2012-17 than Atlanta (219.77), Unity Infrastructure (181.89), Pratibha Infrastructure (155.59) and Supreme Infrastructure (41.05) registered lowest among the five sample companies with minimum average ROI over the period concerned. The ROI position of sample companies are compared and tested with One Way ANOVA. The calculated value of F is 1.221 which is less than the table value of 2.87. It is concluded that the return on investment ratio does not differ significantly and the hypothesis is accepted.
4. The five year Return on Assets of Unity Infrastructure (10.78) is significantly higher among the selected sample companies and lies on the top position throughout the period with maximum average CR over the period 2012-17 than Atlanta (4.28), Supreme Infrastructure (3.67), Gayatri Project (5.43) and Pratibha Infrastructure (4.97). Supreme Infrastructure (3.67) has least ROA among all other companies with minimum average ROA over the period concerned. The ROA position of sample companies are compared and tested with One Way ANOVA. The calculated value of F is 8.147 which is more than the table value of 2.87. It is concluded that the return on assets ratio does differ significantly and the hypothesis is rejected.
5. The five year average Debt equity ratio of Gayatri Project (2.66) is significantly higher among the sample companies and lies on the top throughout the period with maximum average DE over the period 2012-17 than Atlanta (2.34), Supreme Infrastructure (1.31), Unity Infrastructure (0.95) and Pratibha Infrastructure (0.82). Pratibha Infrastructure (0.82) has least DE among all other companies with minimum average DE over the period concerned. The DE position of sample companies are compared and tested with One Way ANOVA. The calculated value of F is 6.181 which is more than the table value of 2.87. It is concluded that the debt equity ratio does differ significantly and the hypothesis is rejected.

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