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FINANCIAL PERFORMANCE ANALYSIS OF INDIAN SMALL AND MEDIUM ENTERPRISES BEFORE AND AFTER INITIAL PUBLIC OFFERINGS

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Abstract

This research investigates the change in performance of Small and Medium Enterprises (SMEs) firms in India as they make the transition from private to public ownership through Initial Public Offerings (IPOs). The study compares the performance of the SME firms before and after going public in the Indian capital market. The performance of SME firms from previous studies has shown a decline on the post-issue operating performance. This study confirms that the same still holds true in context of an emerging economy like India. The study examined 10 Indian IPOs issued on the Bombay Stock Exchange (BSE) from 2012-2022. The study compares the pre-issue financial performance against the post-issue financial performance of the 10 Indian IPOs. To fulfil this, the study adopted a descriptive research design. Descriptive analysis tends to use the mean and standard deviation to measure the stated variables. The study also measures the decline on financial and operating performance through use of globally accepted accounting ratios namely, the return on assets, return on sales, current ratio and fixed asset turnover ratio. The study is comprehensive in nature and provides useful insights for stakeholders working in the Indian financial market. The study concludes by providing relevant roadmap as to what can be done to harness the true potential of public offerings.

Keywords: IPO, ROA, ROS and Current Ratio.

INTRODUCTION

Most companies start out as family-owned businesses or by raising equity capital from a small number of investors. Once the stock is publicly traded, this enhanced liquidity allows the company to raise capital on more favorable terms than if it had to compensate investors for the lack of liquidity associated with a privately held company (Ritter, 1991). The decision of private firms to go public is one of the most fundamental decisions that the company faces in its life. It is the decision that changes the whole structure of the Company (Poornima et al. 2016).

It is not surprising then that the IPO topic has attracted the attention of scholars, investors and decision makers. A vast number of studies have been conducted on the tool of IPO and it has been growing at faster pace in recent years (Pagano et al., 1998). An IPO occurs when a security is sold to the general public for the first time, with the expectation that a liquid market will eventually develop (Shen and Wei, 2007). Several papers have analyzed stock returns and post-operating performance after IPOs (Manu and Saini, 2020). These studies have investigated stock returns and operating performance after firms go public. Both kinds of studies have shown that IPO firms presented less profitability compared to firms that have not gone public.

According to past literature, the long-run returns of IPOs are in line with the going public of many firms coinciding with the existence of relevant interest in certain sectors which implies that investors may be periodically over–optimistic regarding the potential profit of new firms. Several studies have agreed in that they have found the existence of negative long-run abnormal stock returns for firms at 5 years following the IPO.

A small and medium-sized enterprise that provides the public with ownership has brought paradigm shift in Indian market in last few years. It is well known that SMEs are the backbone of the Indian economy but they often find immature agreements about funding and access to large markets. This is changing rapidly. From the relaxation of practices by SEBI, the Indian stock market regulator, SMEs that do not have a comprehensive history of profits or total value can affect financial markets and trade with dedicated platforms such as the BSE SME and the NSE Emerge. Since the first introduction of this concept in 2012, a total of 474 companies have increased the impressive amount of INR 5,825 crores. SME IPOs continue to be a force for good,

as more and more starving SMEs gain better funding, honesty, governance and transparency without losing large portions of ownership to foreign exchange funds and Venture Capitalists (VCs). The reason for going public involve the trade-offs benefits of being publicly traded and the associated costs. Financial economists have proposed several benefits of going public. For the entrepreneurs, they gain from having a more diversified portfolio and with increased liquidity these could positively affect their firm value. There are also numerous costs of going public to the original owners. They have to give up control and increase disclosure of inside information to outsiders which, in turn, can reduce the firm's competitive advantage. More importantly, there is also a cost of separating ownership and control. The agency cost of equity along with information asymmetry, can potentially lead to a situation in which entrepreneurs may attempt to expropriate wealth from new outsiders' shareholders. Financial performance is often assessed in terms of firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. In light of these arguments, we presume that there is a relationship between IPOs and performance of firms that go public both locally and internationally. Previous studies have shown that most firms' performance declines after IPO and this is mainly due to increased agency costs, window-dressing of the accounting numbers prior to going public and also due to lack of timing of the market before floating the shares (Jain and Kini 1994). Several authors have shown conflicting results both in developed and developing economies. For instance, studies by Ahmad-Zaluki (2008); Mittal and Mayur (2012) and Shiah-Hou (2005) all showed a significant decline in operating performance after these firms have gone public whereas Kinyua et al. (2013) showed an improvement of performance after going public.

A number of studies have been carried out on IPOs in India. This includes study by Ghosh (2005) on the effects of initial public offer on performance of companies quoted at the BSE as measured by liquidity, leverage and profitability. Study by Dhamija and Arora (2017) on the long-run performance of IPOs and research by Saha (2023) on analysis of the performance of IPO at the BSE. Studies on developing economies and especially India are still very few especially on the performance of firms after going public. Most studies done have concentrated on the short and long-run IPO performance and on the underpricing of share prices rather than

company performance after an IPO. With the rising number of IPOs in Indian market in the recent past, it is important to undertake an analysis of the post-IPO performance in India. This study focused on a rather longer period, that is from 2012-2022. The study compared the pre-issue operating performance with the post-issue operating performance of firms which released their IPOs in India.

REVIEW OF LITERATURE

This study will also be a reference point for investors on the future performance of the firms which will eventually reflect on the share price after IPOs. This will assist the investors in making investment decisions in the capital markets. This study will be useful to other researchers as it will contribute to the literature on IPOs and the recommendations will stimulate further research in the area. This will fill the research gaps that this study may not address. This study reviewed on the theoretical studies and mainly concentrated on three theories which were on the agency theory, window of opportunity hypothesis and signaling theory.

Agency Theory: Agency theory, as initially conceptualized by Jensen (1993) analyzes the relationship that develops in an economic exchange when an individual, that is, the principal concedes authority to another, that is, agent to act in his or her name, so that the wealth of the principal is benefited by the decisions adopted by the agent. According to the theory, separating ownership from control can result in costs for the principal, known as agency costs, thus requiring costly mechanisms for controlling these costs. Agency costs arise because agents are argued to pursue interests that do not necessarily coincide with those of the principal. Because the use of incentives to create alignment of interests between principal and agency is a primary mechanism proposed by the theory to reduce agency costs, the theory is without doubt one of the main theoretical frameworks in the area of compensation management, particularly at the top management level (Gomez-Mejia et al., 2014). The roots of agency theory are linked to economic utilitarianism (Ross, 1973) which suggests that rational individuals will favor alternatives that enhance their own utility. It provides parsimonious predictions as to how

rational individuals would behave in bilateral relations between self-interested individuals where each individual is faced with information asymmetry about the other individual's effort and interests. In summary, agency theory focuses on identifying the most efficient contract for aligning the interests of an agent with those of the principal (Fama & Jebsen, 1983).

Alanazi et al. (2011) studied a sample of 16 Saudi IPs on the financial performance of the IPOs period 2003-2009. The performance was measured by the Return on Assets (ROA) and Return on Sales (ROS) which showed deterioration after the IPO of which it intensified in magnitude in the subsequent years. The decline in performance could not be attributed to the lack of opportunities since there was a steady growth in terms of sales and capital expenditure. The decline was attributed to the agency cost and this conflict impact on the performance was due to the conflicts between the original owners and new shareholders.

The Window of Opportunity Hypothesis: Ritter (1991) argued that if there are periods when investors are especially optimistic about the growth potential of companies going public, the large cycles in volume may represent a response by BSE firms attempting to time their IPOs to take advantage of these swings in investor sentiment. He argued that the low returns on IPOs are consistent with issuers taking advantage of *window of opportunity* in which the market is willing to overpay for their equity. Majumdar (2003) viewed this framework as a dynamic financing hierarchy or window of opportunity model. External financing is sometimes the first choice for financing because sometimes firms can issue overvalued equity. The window of opportunity predicts that there will be low long-run returns for firms conducting IPOs than for firms conducting seasoned equity offerings.

Signaling Theory: Leland and Pyles (1977) model is one of the first signaling models which describe the issuer's function in the IPO process. Their model is a simple static equilibrium model where the ownership retention rate signals to investors the quality of the issuer. They argued that the level of retention of shares by original shareholders can be convincing signal of the firm value to the outsiders. This idea is very much tied to the principal-agent conflict which should be less of a problem when owners of a company retain large number of shares after the

IPO, thus these companies are regarded as high-quality ones. Investors are expected to make their IPO purchasing decisions based upon this crucial information. Allen and Faulhaber (1989) along with Grinblatt and Hwang (1989) have suggested that issuers use underpricing as a mechanism to signal their quality to the market. These models posit that high-quality firms underprice their stock at the IPO and subsequently conduct a seasoned offering when market prices are established and there has been an opportunity for information revelation.

The cost of underpricing and a positive probability of their type being revealed between the two offerings prevent the low-quality firms from following suit. Thus, signaling models of underpricing predict that IPO firms that underprice their stock should exhibit superior operating performance in comparison to those which do not. The absence of a positive relation between the change in operating performance and underpricing is inconsistent with the signaling explanation for underpricing. Mittal and Mayur (2012) examined ownership change and deterioration of performance in post-IPO period in Indian firms. They measured performance by comparing the post-IPO performance of Indian public firms with pre-IPO performance using percentage changes and median values of operating profit, sales to asset, Return of Net Worth (RONW) and Profit before Depreciation Interest and Taxes (PBDIT) to assets. The results showed that the overall performance of firms deteriorated significantly in the post-IPO period. The decrease was comparatively sharper for sales/total assets, RONW and PBDIT/total sales. They concluded that change in ownership inversely affects the performance of firms in post-IPO performance of Indian public firms. Ahmad-Zaluki (2008) investigated the operating performance and the existence of earnings management for a sample of 254 Malaysian IPO companies over a period of 1990-2000. The author compared the pre and post-IPO accounting-based operating performance and found that the average IPO Company under performs over the three year post-IPO period. There was also a strong decline in performance in the IPO year and up to three years following the IPO. The results confirm that the deterioration in the post-IPO operating performance is due to earnings management by IPO managers at the time of going public.

Kurtaran and Er (2008) analyzed the post-issue operating performance of initial public offerings at the Istanbul Stock Exchange (ISE) as a developing market. They documented a general decline in operating performance subsequent to the IPO. They then explored the relationship between managerial ownership and the change in the post-issue operating performance. They found a positive relation between post-issue operating performance and underpricing level. Finally, the examined post-issue market to book ratio and price earnings ratios to test the market expectations and their results inducted post-issue declines in both ratios. Shiah-Hou (2005) studied operating performance of B-shares in China where the researcher observed a substantial decline in post-issue shares operating performance for issuing firms, which was significantly lower than that of other firms in the same industry. He measured the operating performance using the variables of t-test and rank test, basing it on the International Accounting Rules where the results showed a decline in sales which were accompanied by increased capital expenditure for after-going public B shares. Shette et al. (2016) studied the initial public offers in Kenya for the period 1992-2008. Here, the sample size was 9 IPOs and the study found that the average daily return is 0.06 percent in three years after going public whereas a market model produced daily returns of 0.3 percent over the same period. The research also found out that for three years buy and hold period, all IPOs produced below the market average Beta values below 1. The above review has shown the theories that relate to issuance of IPOs in different capital markets around the globe. The theories better explain why firms issue IPOs and why there has been under performance of firms after IPOs. The empirical review has shown the studies done in the area as well as pointed out the gaps left for the current study. This study seeks to bridge the gap by focusing on post–IPO operating performance of SME companies listed at the BSE.

HYPOTHESES:

H1: There is a significant difference between financial performance of pre and post IPOs of Indian selected SME companies.

> **H1a**: There is a significant difference between Return on Asset (ROA) of pre and post IPOs of Indian selected SME companies.

H1b: There is a significant difference between Return on Sales (ROS) of pre and post IPOs of Indian selected SME companies.

H1c: There is a significant difference between Current Ratio of pre and post IPOs of Indian selected SME companies.

H1d: There is a significant difference between Fixed Asset Turnover (FAT) ratio of pre and post IPOs of Indian selected SME companies.

METHODOLOGY

A population is a complete census of all items or people in a research's area of study (Mugenda and Mugenda, 1999). The target population of this study comprises of all IPOs carried out at the BSE SME from 2012-2022. There are 231 companies currently listed at the BSE and the list is provided as appendix I. The 231 firms are the target population. A sample is a subset of the population. The sample size for this study was composed of 10 companies which were listed at the BSE from 2012-2022. The sample size of 10 was selected as it representative of the population to enable the researcher meet the objective of the study. This includes: Diksha Greens Limited, Sun Retail Limited, AKI INDIA LIMITED, BCPL Railway Infrastructure Limited, S. M. Gold Limited, A-1 Acid Ltd., Shree Krishna Infrastructure Limited Milestone Furniture Ltd, Deep Polymers Limited and Kenvi Jewels Limited. The collection of data for this study was from secondary source. The nature of data collected was purely quantitative in nature. The data was from the annual financial statements of the companies sampled. This was collected from the Bombay Stock Exchange database, Capital Market Authority, newspapers or the respective company premises inclusive of their websites. This study used descriptive survey. A descriptive survey is present-oriented research that seeks to accurately describe the situation as it is. Descriptive research is defined as a process of data collection to test the hypothesis or answer questions concerning the current status of the study (Mugenda and Mugenda, 2003). This method was selected because it enabled the researcher to be able to attempt to describe the relationship that exists between IPOs and operating performance of companies listed at the BSE.

DATA ANALYSIS

All the firms reviewed by the study are analyzed as a single unit to see the effect of listing by comparing the pre and post initial public offering performance. There was done through use of ratios and four performance measures were selected. These are ROA based on EBT, ROS based on EBT, current ratio and fixed asset turnover (FAT). The mean, standard deviation and the variance of the four measures of performance are used to calculate for the period before and after IPO and are shown in Table 4.1 given below.

Table 4.1: Performance of IPO Pre and Post

FIRMS	PRE – IPO					POST-IPO			
	YEAR	ROA	ROS	CR	FAT	ROA	ROS	CR	FAT
DIKSHA GREENS Ltd.	0	3.30	1.95	1.85	4.16	3.30	1.95	1.85	4.16
	1	1.97	1.62	1.42	4.72	40.07	0.71	4.89	2.67
	2	2.5	1.23	2.07	4.46	-11.78	0	1.3	0
	3	1.96	1.08	1.73	4.43	-77.87	0	0.57	0
SUNRETAIL Ltd.	0	0.26	0.21	1.12	9.9	0.26	0.21	1.12	9.9
	1	2.45	0.39	1.62	592.22	-2.14	-0.94	7.16	245.77
	2	0.62	0.14	2.7	183.8	-.48	-.40	5.9	15
	3	0.16	0.04	4.7	96.21	-.83	-9.25	4.4	0
AKIINDIA Ltd.	0	4.22	0.6	1.09	5.56	4.22	0.6	1.09	5.56
	1	0.6	0.6	1.04	4.32	2.46	2.8	1.10	3.01
	2	0.22	0.22	0.97	3.9	2.10	2.58	0.97	2.29
	3	-1.95	-2.4	0.96	3.2	1.67	2.1	1.02	2.57
BPCL RAILWAY INFRASTRUC T-URE Ltd.	0	10.83	11.17	3.4	62.83	10.83	11.17	3.4	62.83
	1	3.82	5.39	3.2	44.19	15.78	12.22	8.66	91.61
	2	2.55	5.35	2.8	30.20	16.38	10.34	4.82	141.3
	3	9.22	8.10	2.99	60.70	13.19	12.95	5.26	88.20
S.M. GOLD Ltd.	0	4.07	1.80	7.37	165.7	4.07	1.80	7.37	165.7
	1	0.6	0.98	1.53	41.6	0.21	0.11	9.05	526
	2	0.2	0.88	1.40	42.45	1.10	0.66	2.97	31.75
	3	-1.95	1.31	1.58	40	3.76	2.06	3.72	334
A-1ACID Ltd.	0	9.6	3.96	1.43	10.38	9.6	3.96	1.43	10.38
	1	11.9	4.24	1.35	9.4	0.22	0.38	3.46	2.09
	2	4.19	1.46	1.42	27.88	0.69	0.86	4.96	3.10
	3	5.32	0.17	1.28	26.30	0.60	0.92	2.66	2.79

SHREE KRISHNA INFRASTRUC-TURE Ltd.	0	1.21	6.27	8.75	7.53	1.21	6.27	8.75	7.53
	1	0.8	3.44	6.11	64.14	1.45	6.31	5.11	9.5
	2	1.48	6.31	1.51	48.42	0.74	4.10	45.5	6.63
	3	0.33	3.58	0.44	---	2.5	1.19	104	7
DEEP POLYMERS Ltd.	0	10.08	7.47	2.47	10.87	10.08	7.47	2.47	10.87
	1	6.5	4.57	1.8	10	14.83	11.38	11.28	13.48
	2	-1.09	-1.36	1.56	8.83	7.44	6.38	10.07	12.45
	3	3.69	2.4	4.1	7.53	7.66	6.08	5.39	14.56
MILESTONE	0	5.27	4.11	2.10	6.45	5.27	4.11	2.10	6.45
FURNITURE	1	9.5	5.65	3.77	11.56	0.42	1.59	15.06	1.31
Ltd.	2	12.2	5.1	2.01	14.6	0.06	2.5	65.82	0.13
	3	3.7	2.43	1.5	9.93	-4.44	-568.18	102.29	0.03
KENVI	0	8.61	10.4	3.2	34.45	8.61	10.4	3.2	34.45
JEWELS	1	1.3	0.42	1.67	35.53	0.83	0.38	7.37	118.65
Ltd.	2	0.5	0.14	1.84	30.36	2.22	0.86	12.74	144.58
	3	0.36	0.21	2.06	59.38	2.51	0.92	7.05	58.6
TOTAL		**141.1**	**111.63**	**95.91**	**1838.09**	**98.8**	**-440.45**	**497.33**	**2196.9**
MEAN		**3.52**	**2.79**	**2.39**	**45.95**	**2.47**	**-11.01**	**12.43**	**54.92**
STDEV		**3.91**	**3.088**	**1.73**	**98.19**	**15.29**	**90.46**	**24.20**	**105.92**

The study analyzed the four performance measures to test the change in any of these before and after the IPO. From the analysis above, the study compared the financial performance of the companies for three years that is three years before and after listing. There was an overall total decrease in ROA, ROS, Current ratio and FAT in the ten companies that were sampled. This shows that the companies' financial performance declined after going public. Paired sample t-test was used to analyze differences in the financial performance of SMEs before and after the IPO. The sig. or 2-tailed value of all variables is greater than 5 percent. This indicates that there is no significant difference between the financial performance of SMEs before and after IPO on the SME BSE Platform. The return on assets is the prevailing financial measure for comparing the financial performance of the companies over time, that is, before and after IPO and it is also the starting point in this presentation and discussion results. ROA indicates the number of paisa earned on each shilling of asset, it measures efficiency of the business in using its assets to generate net income, thus the higher the ROA, the better the performance of the firm. The table 4.2 below shows the results of the return on assets based on EBT for three years pre and three

years post IPO for ten companies that were studied. Diksha Greens, Sun Retail, A-1 Acid and Milestone Furniture show a decline in ROA while AKI India, BPCL Railway Infrastructure, SM Gold, Shree Krishna Infrastructure, Deep Polymers and Kenvi Jewels recorded an increase of ROA after initial public offering. The average ROA decreased from 3.54 to 2.46, this means that in general the performance of companies declines immediately after an initial public offering.

Table 4.2 ROA based on EBT pre and post IPO listing.

FIRMS	**PRE – IPO**	**POST - IPO**
DIKSHA GREENS	2.43	-11.57
SUN RETAIL	0.87	-0.79
AKI INDIA	0.77	2.6
BPCL RAILWAY INFRASTRUCTURE	6.60	14.04
SM GOLD	0.73	2.28
A-1 ACID	7.75	2.77
SHREE KRISHNA INFRASTRUCTURE	0.95	1.47
DEEP POLYMERS	4.99	10
MILESTONE FURNITURE	7.66	0.32
KENI JEWELS	2.69	3.54
STDEV	1.73	6.71
P -VALUE	0.5995	
T -VALUE	-0.5443	
SIGNIFICANCE	Not Significant	

The ROS is the second financial performance measure which was included to overcome normal drawback normally experienced in the computation of ROA. ROS is created purely by income statement items and are thus not affected by potential problems of historical costs. ROS measures the portion of each shilling of sales that a firm is able to turn into income. A higher value of ROS is favorable which indicates that more proportion of revenue is converted into operating income.

Table 4.3: Return on Sales.

	PRE – IPO	POST - IPO	VARIANCE
DIKSHA GREENS	1.47	0.66	-0.81
SUN RETAIL	0.19	-2.59	-2.78
AKI INDIA	-0.24	2.02	2.26
BPCL RAILWAY INFRASTRUCTURE	7.50	11.67	4.17
SM GOLD	1.24	1.15	-0.09
A-1 ACID	2.45	1.53	-0.92
SHREE KRISHNA INFRASTRUCTURE	4.9	4.46	-0.44
DEEP POLYMERS	3.24	7.82	4.58
MILESTONE FURNITURE	7.66	-39.99	-47.65
KENVI JEWELS	4.32	3.14	1.18
STDEV	2.66	13.53	10.87
P -VALUE	0.47		
T -VALUE	-0.87		
SIGNIFICANCE	NS		

S-Significant if P ≤ 0.05, t ≥ 1.96 (Significance level = 0.05)

The table above shows the results of the return on sales based on EBT for three years pre and three years post IPO for ten companies that were studied. Diksha Greens, Sun Retail, A-1 Acid, SM Gold, Shree Krishna Infrastructure, Kenvi Jewels and Milestone Furniture show a decline in ROA while AKI India, BPCL Railway Infrastructure and Deep Polymers recorded an increase of ROA after initial public offering. The average ROS decreased from 3.27 to -1.01, this means that in general the performance of companies declines immediately after an initial public offering. Current ratio is the third financial performance measure that was used in the study. It is the ratio of current assets of a business to its current liabilities. It is the mostly widely used to test of liquidity of a firm and its ability to pay its short-term liabilities. The table below shows the results of the current ratio for the ten companies that were sampled. All the firms showed an increase on the current ratio after listing of the firms. The overall current ratio increased on

average from 2.11 to 12.43, this shows that the general performance of companies increased after an IPO.

Table 4.4 Current ratio pre and post IPO listing

FIRMS	PRE – IPO	POST - IPO	VARIANCE
DIKSHA GREENS	1.76	2.15	0.39
SUN RETAIL	2.53	4.64	2.11
AKI INDIA	1.01	1.05	0.4
BPCL RAILWAY INFRASTRUCTURE	3.09	5.53	2.44
SM GOLD	2.97	5.77	2.8
A-1 ACID	1.37	3.12	1.75
SHREE KRISHNA INFRASTRUCTURE	1.42	40.84	39.42
DEEP POLYMERS	2.48	7.3	4.82
MILESTONE FURNITURE	2.34	46.32	43.98
KENVI JEWELS	2.19	7.59	5.4
STDEV	0.66	15.74	15.08
P- VALUE	0.08		
T -VALUE	1.95		
SIGNIFICANCE	NS		

FAT was included in the study in order to measure a company's ability to generate net sales from fixed asset investment. It is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing sales with FAT. The higher the FAT the better the company is utilizing the capacity of its fixed assets.

Table 4.5 Fixed Assets Turnover.

FIRMS	PRE – IPO	POST - IPO	VARIANCE
DIKSHA GREENS	4.44	1.70	-2.74
SUN RETAIL	220.30	67.66	-152.64
AKI INDIA	4.24	3.36	-0.88
BPCL RAILWAY INFRASTRUCTURE	49.48	95.98	46.5
SM GOLD	72.44	264.36	192.36

A-1 ACID	18.49	4.59	-13.9
SHREE KRISHNA INFRASTRUCTURE	30.02	7.66	-22.36
DEEP POLYMERS	9.30	12.84	3.54
MILESTONE FURNITURE	10.63	1.98	-8.65
KENVI JEWELS	39.93	89.07	49.14
STDEV	61.81	78.55	
P- VALUE	0.745		
T -VALUE	0.33		
SIGNIFICANCE	Not Significant		

The table above shows the results of the FAT for the companies that were sampled. Diksha Greens, Sun Retail, AKI India, A-1 Acid, Shree Krishna Infrastructure and Milestone Furniture shows a decline in ROA while BPCL Railway Infrastructure, SM Gold, Kenvi Jewels and Deep Polymers recorded an increase of FAT after initial public offering. Overall performance of the sampled firms shows a significant increase on the FAT from an average of 45.92 to 54.92 which portray an increase of the performance of the firms immediately after an IPO. The results shown in the above tables represents a significant change in the “mean values and t value” of pre and post-IPO affects for Return on assets (3.54 % and 4.46%), mean value of Return on Sales (3.27% and -1.01%), mean value of Current Ratio (2.11 and 12.43) and mean value of Fixed Asset Turnover (45.92 and 54.92) respectively. This performs a minute change in the financial parameters during the post-IPO period. Return on Assets, Return on Sales, Current Ratio and Fixed Asset Turnover have higher p-value while we compare with the 0.05 level of significance. So, it can be concluded all the ratios are not affected by after IPO listing.

CONCLUSION

Based on the results of the data analysis, it can conclusively be stated that the majority (60%) of the companies in the sample had declined in performance after an IPO. This means that company either window dress their financial statements immediately before going public or there is an

increase on the agency cost due to change of ownership after an IPO. A mean of 40 percent of the companies sampled show an increase in financial performance after an IPO. This means that either the management of the company did not change after the IPO and or the company used the proceeds received from the sale of its shares to invest in viable investment that improved on the financial performance of the companies. It was noted that all the four performance measures that is the return on assets, return on sales, current ratio and fixed asset turnover all showed a mean decline on the performance of the companies that were sampled. The companies whose performance declined the most were Diksha Greens, A-1 Acid, Sun retail and Shree Krishna Infrastructure. BPCL Railway Infrastructure, Deep Polymers, Kenvi Jewels and SM Jewels recorded an increase in financial performance in all the measures that were used after the IPO. To determine the effects of IPO on the financial performance of the SME firms by analyzing pre-IPO and post-IPO listing. This study is important to various stakeholders. The study will be useful to companies as they will be able to understand more on the IPOs and be able to know the issues that surround the issuance of IPOs. The company will be able to know on how to reduce on the agency costs and also know on the timing in which to float their shares in the market. The companies would be able to make a decision as to whether to float their shares or wait for the appropriate time. The study will also be useful to the government in policy formulation and the regulators such as Capital Market Authority (CMA) or SEBI in providing knowledge on how to handle future IPOs so as to improve confidence of the investors in the stock markets. The study found that firms going public exhibit a sustainable decline in post-issue financial performance. Over the six years period extended from prior and post IPO, financial performance levels have declined based on several performance measures.

Though not significantly different, liquidity was seen to improve in the post going public period. This is due to the proceeds received by companies from the sale of their shares to the public. This therefore implies that firms improve their liquidity position after going public. Overall, the study indicates that IPO firms are unable to sustain their pre-issue financial performance levels. Although IPO firms display high post-issue growth in sales, their measures of profitability decline. Earlier studies have documented decline on the financial performance of companies

after going public and the results of this study are consistent with these studies. It appears that IPO firms are priced with the expectation that profit margins will grow beyond their pre-IPO levels, while in reality they decline over time. It should however be noted that the main aim of an IPO is for a company to raise as much capital as possible and therefore the companies that wish to go public should do so without misinforming the public on the position of their financial performance in order to sell their shares at a higher price than the shares' actual value.

The study recommends that the government and regulatory bodies to thoroughly audit companies that wish to be listed especially the three years financials before going public in order to discourage the management from "window dressing" of their financial statements in order to avoid misinforming the public on the true financial position of the company been listed. Investors should also be careful when investing in IPOs because companies time their issues to coincide with periods of unusually good performance levels, which they know cannot be sustained in the future. Thus, investors should be keen on the performance trends of the companies that they wish to invest in.

It is recommended that underwriters, values and transaction advisors refine or completely re-examine their IPO valuation techniques and methods in order to prevent the gross over-valuation of IPOs. This is because over valuing IPOs may adversely affect investors once these IPO enter the market. They can accomplish this primarily through better forecasting techniques that take into account the strengths, weaknesses, opportunities and threats faced by the companies as well as their particular industry and the economy in general. Investor protection agencies such as the Security Exchange Board of India (SEBI) should also be more vigilant in protecting would be investors who may wish to take up company shares in an IPO. While they cannot directly affect the actions of the issuing company and the underwriters when it comes to price setting, they may be able to sensitize them on the importance to put investor interest at the center of their decision-making processes and to avoid miss informing them on the financial performance of the company. They should also sensitize investors on prevailing valuation trends so as equip them with all the information necessary for them to make informed investment decisions.

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