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Analysis of Retail Investors Attitude towards IPO Investments with Special Reference to Coimbatore City

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Abstract: ***The investment behavior of retail investors in Initial Public Offerings (IPOs) plays a crucial role in capital markets, influencing both market stability and company valuations. This study aims to explore the attitudes and perceptions of retail investors towards IPO investments, focusing on key factors such as risk tolerance, financial literacy, past investment experiences, and external market influences. Through a combination of primary data collection and secondary research, this study examines the motivations, expectations, and challenges faced by retail investors when participating in IPOs. The research identifies critical behavioral patterns, including the influence of herd mentality, market sentiment, and regulatory policies on investment decisions. The findings suggest that while IPOs are perceived as attractive investment opportunities, concerns over risk, information asymmetry, and post-listing performance impact investor confidence. The study emphasizes the need for enhanced investor awareness, financial education, and transparent regulatory frameworks to foster informed investment decisions.***

Keywords: ***Retail Investors, IPO Investment, Investor Perception, Market Sentiment, Risk Tolerance, Financial Literacy, Investment Behavior, Regulatory Frameworks, Stock Market, Investment Decision-Making***

I. INTRODUCTION

An Initial Public Offering, often referred to by the acronym IPO, is a company's first sale of stock to the public, thereby transforming that company into a publicly-traded company. IPOs are one of the major ways in which companies raise capital to grow, expand operations, reduce debt, and increase public visibility.

In the wake of such potential for high returns, IPO investments have gained wide attention from retail and institutional investors. Participation in IPOs by investors basically means investing in a company at an early stage of its public life. Most of the successful companies have registered a sharp rise in share prices after going public, further fuelling the excitement among the IPO investors. IPOs, however, do come with risks.

Valuation of IPOs is usually speculative, and investors have to consider financial performance of the issuing company, industry prospects, market sentiment, and offering price.

IPO investments are very important in financial markets since they enable companies to have access to public capital and investors to face new opportunities. While the prospect of high returns may attract investors, they should weigh the risks equally. Knowledge of the IPO process, its types, its advantages, and risks is important in making proper investment decisions. Moreover, the attitude of retail investors toward an IPO depends on a complex combination of financial, psychological, and other external factors, which makes the study of these behaviours interesting and rewarding.

An Initial Public Offering, or IPO, marks a significant event in the life of a company, when it transits from a privately held firm to a publicly traded corporation. Shares are issued by companies to the general public for the first time as a way of raising capital to expand operations, fuel research and development, pay off debt, or for other strategic purposes. IPOs also help improve the market visibility and credibility of the company.

An IPO is an important step in business development. It gives a firm access to capital from the public capital market. An IPO will also tend to raise the credibility and publicity of a business enormously. Most of the time, an IPO is the only way to finance quick growth and expansion. In terms of the economy, since a large number of IPOs being issued is indicative of a healthy stock market and economy.

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A. *Statement Of Problem*

The initial public offering is becoming very popular investment avenue mainly for the retail investors. The companies are going towards the public for fund raising purpose and the significant increase in stock market, IPO trends to give high profitability along with considerable amount of risk involved in it. The retail investors face difficulty in IPO investments due to availability of the resources and knowledge in the securities market. Despite high return, there is a lack in clear understanding about the behavioural aspects, preferences and attitudes of retail investors. The study aims at analysing the attitudes and factors influencing the retail investors towards IPO investments.

B. *Objectives of The Study*

1) To assess the level of awareness and understanding of IPOs' among retail investors.
2) To identify the factors influencing the decisions of retail investors towards ipo.

C. *Scope of The Study*

Specifically, this article tries to explain the behaviour and attitudes of retail investors toward IPO investment, focusing on some key factors such as perceived profitability, market sentiment, and accessibility of IPOs. Furthermore, this article investigates the risks and challenges confronted by retail investors in the process of taking part in IPOs and seeks to shed light on strategies adopted by retail investors to mitigate such risks. The geographical scope of the study will be limited to Coimbatore city and the target population will consist of retail investors who have invested in IPOs over the past five years.

D. *Limitations of The Study*

1) The study is limited to Coimbatore city only and it may not be applicable to other areas in Tamil Nadu
2) This study covers only for short period of time so the results may not be accurate for long periods.
3) The study covers only 150 respondents.

II. REVIEW OF LITERATURE

Chen & Lee (2024):[1]This study analyzes the impact of regulatory changes on retail investors' IPO attitudes. The authors observe that retail investor confidence can be strongly influenced by the level of regulatory oversight in the IPO process. In regions where there is a high level of transparency and investor protection, retail investors are more likely to participate in IPOs, as they feel assured that their investments are protected. Conversely, in markets with weaker regulatory frameworks, retail investors exhibit more caution and scepticism towards IPO offerings.

Arora, A.K., Kumar, S., & Kansal, A. (2024)[2]: This study examined the investment behaviour of retail investors in Indian IPOs, identifying key factors influencing their decisions, such as company goodwill, financial history, and management profile. It also highlighted reasons for non-participation, including fear of financial loss and lack of knowledge.

Lee & Tan (2023)[3]: This research examines the impact of post-IPO performance on retail investors' attitudes toward future IPO investments. The study finds that retail investors are highly influenced by the initial performance of an IPO, with many choosing to invest in subsequent IPOs based on the success or failure of previous offerings. The authors suggest that strong postIPO performance is often seen as a sign of a company's credibility and growth potential, which drives future investor participation. However, the study also warns that such behaviour can lead to market bubbles if retail investors overvalue IPOs based on short-term gains.

Sharma & Kumar (2023)[4]: This research looks at the role of past performance in shaping retail investors' IPO expectations. The study suggests that retail investors often base their decision to participate in an IPO on the perceived success of previous IPOs in the market. They are more likely to invest in IPOs that are similar to those that have performed well in the past, which can lead to overestimating the potential returns. The authors recommend a more cautious approach to IPO investing, focusing on the fundamentals of the company rather than historical trends

Yadav& Joshi (2022)[5]: This paper examines the influence of technological advancements and mobile trading platforms on retail investors' IPO behavior. The authors find that the ease of access to trading platforms has significantly increased retail participation in IPOs, as investors can now buy shares directly from their smart phones. While this has democratized access to IPOs, the study highlights concerns about retail investors' lack of due diligence and over-reliance on technology rather than financial analysis. This study analyzes retail investor participation in IPOs, highlighting the impact of regulatory reforms and investor education initiatives on enhancing retail investor confidence and participation levels. The authors emphasize the need for investor-friendly IPO frameworks to promote retail investor participation.

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III. ANALYSIS AND INTERPRETATION

Demographic Profile Of The Respondents

Age Group of the respondents	Frequency	Percent
18-25 Years	38	25.3
26-35 Years	43	28.7
36-50 Years	41	27.3
Above 50 Years	28	18.7
Total	150	100.0
Gender of the respondents	Frequency	Percent
Male	83	55.3
Female	67	44.7
Total	150	100.0
Monthly Income of the respondents	Frequency	Percent
Up to ₹ 20000	32	21.3
₹ 20001-50000	58	38.7
Above ₹ 50000	60	40.0
Total	150	100.0
Educational Qualification	Frequency	Percent
Under Graduate	55	36.7
Post Graduate	73	48.7
Others	22	14.7
Total	150	100.0

A. Simple Percentage Analysis

Primary Source of Information about IPOs

Primary Source of Information about IPOs	Frequency	Percent
News Media	27	18.0
Financial Advisors	21	14.0
Financial Applications	33	22.0
Friends and Family	19	12.7
Brokerage Firms	25	16.7
Stock Exchanges	13	8.7
TV Advertisements	12	8.0
Total	150	100.0

Source: Primary Data

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Interpretation:

The above table reveals that the highest percentage of retail investors rely on financial applications as their primary source of information about IPOs, accounting for 22.0 percent. This is followed by news media at 18.0 percent and brokerage firms at 16.7 percent. Financial advisors contribute 14.0 percent, while friends and family account for 12.7 percent. The lowest sources of information are stock exchanges at 8.7 percent and TV advertisements at 8.0 percent. Most (22.0 percent) of retail investors gather information about IPOs from financial applications.

Factors considered before investing in an IPO

Factors considered before Investing in an IPO	Frequency	Percent
Company's Past Performance	23	15.3
Market Trends	20	13.3
Recommendations from Experts	18	12.0
Personal Intuition	11	7.3
Risk Factors	26	17.3
Lock-in Period	14	9.3
Quality of Management	19	12.7
Profitability of the Company	19	12.7
Total	150	100.0

Source : Primary Data

Interpretation: From the above table, it is evident that the highest percentage of retail investors consider risk factors as the most important factor before investing in an IPO, accounting for 17.3percent . This is followed by the company's past performance at 15.3 percent, while market trends contribute 13.3 percent .Recommendations from experts account for 12.0, percent and both the quality of management and the profitability of the company are considered by 12.7percent of investors each. The lock-in period is a factor for 9.3 percent of investors, while personal intuition is the least considered factor at 7.3percent . Most (17.3 percent) of retail investors consider risk factors as the most important factor before investing in an IPO.

Level of Awareness Regarding IPO Investments

Factors	Mean	Std. Deviation
Role of Prospectus	3.353	1.265
Subscription Rate for IPO	3.400	1.285
Mobile Applications Providing Info about IPO	3.420	1.327
Risk Involved while Investing in IPO	3.387	1.273
Lock-in Period for Subscriptions	3.247	1.247

Source : Primary Data

Inference: From the above table the descriptive statistics for the Level of Awareness Regarding IPO Investments are ranked from 'Mobile Applications Providing Info about IPO' stood at first with the highest mean score 3.420, followed by 'Subscription Rate for IPO' stood at second with the mean score 3.400, 'Risk Involved while Investing in IPO' stood at third with the mean score 3.387, 'Role of Prospectus' stood at fourth with the mean score 3.353, and finally 'Lock-in Period for Subscriptions' stood at fifth with the mean score 3.247.

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B. Chi-Square Test

1) Hypothesis No.1

Null Hypothesis (H_0):There is no significant relationship between age group and awareness of the subscription rate for IPOs.
Alternative Hypothesis (H_a):There is significant relationship between age group and awareness of the subscription rate for IPOs.

Age group and awareness of the subscription rate for IPOs

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	21.854[a]	12	.039
Likelihood Ratio	21.090	12	.049
Linear-by-Linear Association	.878	1	.349
N of Valid Cases	150		
a. 5 cells (25.0%) have expected count less than 5. The minimum expected count is 2.61.			

Source: Computed from Primary data

Inference: It is evident from the above tablem that the Pearson Chi-Square value is 21.854 with a significance value of 0.039, which is less than the standard significance level of 0.05. This indicates that there is a significant relationship between age group and awareness of the subscription rate for IPOs. Thus, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_a) is accepted, confirming that age group significantly influences awareness of the subscription rate for IPOs.

2) Hypothesis No.2

Null Hypothesis (H_0): There is no significant relationship between gender and satisfaction with regular updates via social media.
Alternative Hypothesis (H_a): There is a significant relationship between gender and satisfaction with regular updates via social media.

Exhibit No.4.3.2

Gender and satisfaction with regular updates via social media.

Chi-Square Tests			
	Value	df	Asymptotic Significance (2sided)
Pearson Chi-Square	9.885[a]	4	.042
Likelihood Ratio	10.076	4	.039
Linear-by-Linear Association	.277	1	.599
N of Valid Cases	150		
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 7.15.			

Source: Computed from Primary data

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Inference: The above table reveals that the Pearson Chi-Square value is 9.885 with a significance value of 0.042, which is less than the standard significance level of 0.05. This indicates that there is a statistically significant relationship between gender and satisfaction with regular updates via social media. Thus, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_a) is accepted, confirming that gender significantly influences satisfaction with regular updates via social media.

IV. FINDINGS

1) Majority (28.7%) of retail investors in IPO investments belong to the 26-35 years age group.
2) Most (40.0%) of retail investors in IPO investments have a monthly income above ₹50,000.
3) Majority (55.3%) of retail investors in IPO investments are male.
4) Most (48.7%) of retail investors in IPO investments are postgraduates.
5) Most (22.0%) of retail investors gather information about IPOs from financial applications.
6) There is a significant relationship between gender and satisfaction with regular updates via social media.
7) There is a significant correlation between satisfaction with regular updates via social media and the impact of the IPO price band on decision-making.

V. SUGGESTIONS

1) Developers should enhance financial applications by improving user interfaces and providing real-time updates to make IPO information more accessible to investors.
2) Financial institutions should introduce educational webinars and guides to increase awareness of risk factors, helping investors assess risks more effectively.
3) Companies should provide clear justifications for IPO price bands to improve transparency and build investor confidence.
4) Financial advisors should educate investors on Return on Investment (ROI) assessment, as it is the most prioritized financial metric for IPO evaluation.
5) Investors should be provided with risk-mitigation strategies and portfolio diversification techniques to address concerns about market volatility.
6) Technical glitches in IPO applications should be minimized to ensure a seamless and hassle-free investment experience for retail investors.
7) Awareness campaigns and advisory services should be implemented to strengthen investor confidence amid market fluctuations and economic uncertainties.
8) Regulatory bodies should verify the credibility of online investment platforms to ensure that IPO-related information is accurate and unbiased.
9) Financial institutions should increase awareness about lock-in periods by providing clear explanations of their impact on liquidity and investment strategies.
10) Stricter regulations should be enforced to prevent the spread of misleading IPO related information and ensure transparency in investment decision-making.
11) Investors should be educated on the significance of anchor investments and how they influence the performance and credibility of an IPO.

VI. CONCLUSION

The study on retail investors' attitudes toward IPO investments provides valuable insights into the factors influencing investment behavior, awareness levels, and satisfaction with IPO-related aspects.

The findings indicate that financial applications are the primary source of IPO information, highlighting the increasing reliance on digital investment tools. Furthermore, risk factors play a crucial role in decision-making, suggesting the need for more investor education on risk mitigation strategies. Investors consider the IPO price band sometimes before making investment decisions, indicating that price transparency can enhance investor confidence. The study also reveals that Return on Investment (ROI) is the most prioritized financial metric, reflecting investors' focus on profitability. Market volatility emerges as the biggest concern, which suggests that investors seek more stability in IPO offerings.

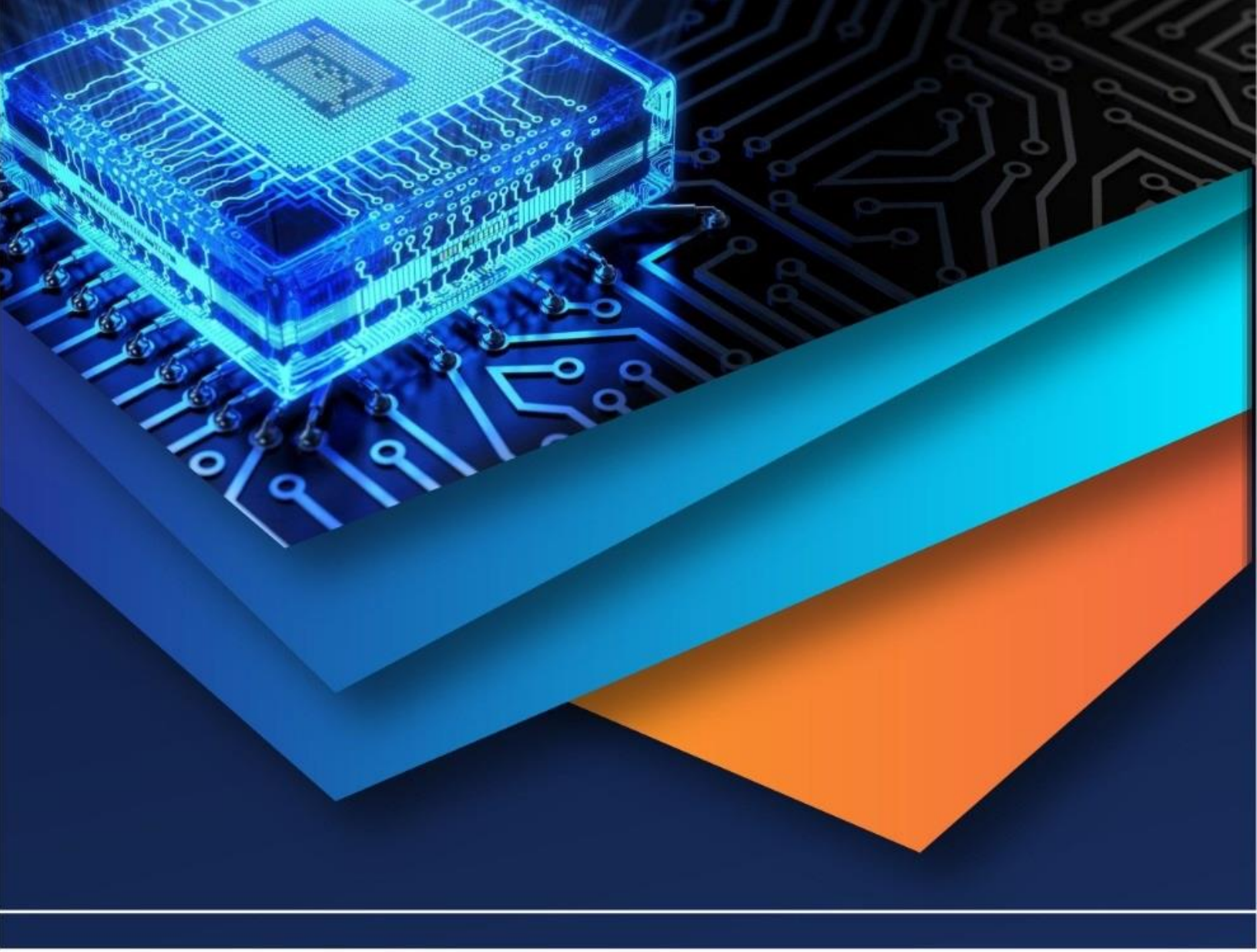
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