



iJRASET

International Journal For Research in
Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 7 Issue: III Month of publication: March 2019

DOI: <http://doi.org/10.22214/ijraset.2019.3387>

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Indian Investors and IPO'S

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Abstract: Initial public offer (IPO) plays the vital role for the expansion of any company. Initial public giving (IPO) in Republic of India suggests that the marketing of the shares of an organization, for the primary time, to the public in the country's capital markets. It has the least risk and it is also diluted. The main function of the public offer is to facilities the transfer of resources from the savers to users. The decisions taken by the Indian investors while investing in initial public offer. The reason for IPO issues are following. The number of problem faced by the Indian investors is delay in refund and lack of clarity in allotment. The analysis state that there are three major factors that influence Indian investor while investing in IPO are company philosophy, future prediction and projection, news relating to company IPO and financial performance. The outcome of study could be considered by brokering firm, issuing companies and Indian investors as input or more focused services.

Keywords: Initial public offerings, Investors, Problem

I. INTRODUCTION

The process of giving shares during a exceedingly in a very close corporation to the general public for the primary time is named an initial public giving (IPO). Growing companies that need capital will frequently use IPOs to raise money, while more established firms may use an IPO to allow the owners to exit some or all their ownership by selling shares to the public. In Associate in nursing initial public giving, the issuer, or company raising capital, brings in underwriting companies or investment banks to assist verify the simplest kind of security to issue, offering price, quantity of shares and time-frame for the market giving.

Trends in the IPO market; As a result of the reforms initiated by the Government of India, primary market, (including IPOs) started emerging as one of the major source of funds for Indian companies as well as an important avenue for retail/common investors to channelize their savings for higher return. As a result, the IPO market witnessed manifold growth in terms of both the number of issues as well as the amount raised in the market. The number of IPO issues went up from 158 issues during 1991- 92 to 1357 issues in 1997 with the corresponding jump in the IPO proceeds from ` 724 core to ` 10924 core during the same period. However, the situation did not last for long and unsustainable pricing of IPOs, vanishing acts of companies and I.T. meltdown – all robbed the market of its buoyancy in mid and late 1990s. The decline in the IPO activities was also partly. Attributed to the decline in industrial activities and strict entry norms which prevented companies without track record from accessing the market. The absence of good quality issues, lack of investors' confidence in new companies and subdued secondary market were some of the factors which hindered the growth of IPOs in the Indian Capital Market. A further analysis of the trend in the growth of the Indian IPOs in the last two decades indicates that the IPO market experienced boom during 1995 - 98 followed by another two years of recovery period during 1999- 2001. However, several measures taken to reform the Indian capital market to enhance the market efficacy as mentioned above helped in restoring the confidence of investors, both in the primary & secondary market. As a result, the primary market with focus on IPOs witnessed renewed activity since 2003-04.

II. THE IPO PROCESS OF INDIA

Below square measure the steps a corporation should undertake to travel public via AN initial public offering process:

- 1) Select a bank
- 2) Due diligence and filings
- 3) Pricing
- 4) Stabilization
- 5) Transition

A. Investor's Terms Involved in IPO

- 1) **Primary Market:** It's the market within which investors have the primary chance to shop for a recently issued security as in Associate in Nursing IPO.
- 2) **Prospectus:** A proper instrument describing the small print of the corporate is formed for a planned mercantilism, also making the investors aware of the risks of an investment. It is also known as the offer document.

- 3) *Book Building*: It's the method by that a shot is created to see the value at that the securities area unit to be offered supported the demand from investors.
- 4) *Over-Subscription*: A situation in which the demand for shares offered in an IPO exceeds the number of shares issued.
- 5) *Green Shoe Possibility*: It's named as an over-allotment option. It is a provision contained in an underwriting agreement whereby the underwriter gets the correct to sell investors additional shares than originally planned by the establishment just in case the demand for a security issue proves more than expected.
- 6) *Price Band*: Price band refers to the band within which the investors can bid. The unfold between the ground and also the cap of the value band isn't over two hundredth i.e. the cap shouldn't be quite one hundred twenty of the ground value. This is set by the corporate and its businessperson bankers. There is no cap or regulatory approval needed for determining the price of an IPO.
- 7) *Listing*: Shares offered in IPOs are required to be listed on stock exchanges for the purpose of trading. Listing implies that the shares are listed on the exchange and area unit out there for commercialism within the secondary market.
- 8) *Flipping*: Flipping is reselling a hot mercantilism stock within the initial few days to earn a fast profit. The reason behind this is that companies want long-term investors who hold their stock, not traders.

B. Intermediaries Involved in the Issue process IPO

Intermediaries that area unit registered with SEBI area unit businessperson Bankers to the difficulty [known as Book Running Lead Managers (BRLM)] just in case of book designed public issues), Registrars to the issue, Bankers to the difficulty & Underwriters to the difficulty WHO area unit related to the difficulty for various activities. Their address, telephone, fax numbers, identification number, and get in touch with person and email addresses area unit disclosed within the supply documents.

- 1) *Merchant Banker*: Business person banker will the due diligence to organize the supply document that contains all the small print concerning the corporate. They are additionally accountable for making certain compliance with the legal formalities within the entire issue method and for selling of the difficulty.
- 2) *Registrars to the Issue*: They're concerned in finalizing the premise of allotment in a problem and for causing refunds, allotment etc.
- 3) *Bankers to the Issue*: The Bankers to the difficulty change the movement of funds within the issue method and thus change the registrars to settle the premise of allotment by making clear funds status available to the Registrars.
- 4) *Underwriters*: Underwriters are intermediaries who undertake to subscribe to the securities offered by the company incase these are not fully subscribed by the public, in case of an underwritten issue.

III. ADVANDAGES OF INITIAL PUBLIC OFFERING

The primary objective of Associate in nursing commercialism is typically to lift capital for a business. However, a public giving has alternative advantages also.

A public company will raise extra funds within the future through secondary offerings as a result of it already has access to the general public markets through the IPO.

Many firms can compensate executives or alternative workers through stock compensation. Stock in a public company is more attractive to potential employees because shares can be sold more easily. Being a public company might facilitate a company recruit higher talent.

Merger and acquisition activity could also be easier for a public company that may use its shares to accumulate another firm. Similarly, it's easier to determine the worth of a purchase target if it's in public listed shares.

A. Impact Of Initial Public Offering

Commercialism is pricey, and the costs of maintaining a public company are ongoing and usually unrelated to the other costs of doing business. There are unit alternative disadvantages of Associate in nursing commercialism also.

Fluctuations in an exceedingly company's share worth is a distraction for management, which may be compensated and evaluated based on stock performance rather than real financial results.

Strategies won't to inflate the worth of a public company's shares, such as using excessive debt to buy back stock, can increase the risk and instability in the firm.

A public company should file reports with the SEC that will reveal secrets and business ways that would facilitate competitors.

IV. REVIEW OF LITERATURE

Venkatesh & Neupane (2004) in their study on “Does Ownership Structure Effect IPO underpricing: Evidence from Thai IPOs” has used a unique set of IPOs data in Thailand post Asian Financial crises to spot the link between initial market adjusted underpricing and also the possession concentration. Ownership concentration in this model has been measured by the proportion of the outstanding shares held by the top shareholders reported post IPOs. Other variables taken in this regression model is prevailing market condition defined in terms of cumulative daily return on the security exchange 30 - trading days before an IPO and standard deviation of daily returns on the index 30-trading day representing market conditions surrounding a new issue and uncertainty surrounding a new issue respectively. Ownership concentration factor brought out some results which were inconsistent with the Signaling hypothesis (relationship of high ownership and high underpricing), but consistent with some other studies in the emerging market. High possession concentration wasn't followed by high initial underpricing. In fact the reverse occurred that indicated the selling price was already set high by the big shareholders of the corporate thus on move the type of initial high returns. The regression analysis could not identify any other specific factor determined the initial underpricing of Thai IPOs.

Bansal & Khanna (2012) in their study on “Determines of IPOs underpricing: an Empirical evidence from Bombay Stock Exchange after Stock Market Crises”. An attempt has been in his study to design and test empirical models, which integrate theoretical, institutions and other factors which interact to explain ownership structure, ex ante information deciding the level of underpricing after the Stock Market Crises. The study is based on the IPOs that got listed at BSE during 2008-2011. Factors used in the multivariate regression are issue sizes, market capitalization, firm's age, institutional non promoters, number of shares, private IPO firms, Indian promoters, foreign promoters, non-institutional non promoters and book build price mechanism have been used in this study. The results of the study shows that number of share offered, issue size, market capitalization, institutional non-promoters, and private IPO firms are statistically significant vis-à-vis the level of underpricing. The result exhibits a negative relationship between the numbers of shares offered, issue size and private IPOs vis-à-vis the level of underpricing. At the same time market capitalization is positively related to the level of underpricing. However, timing of IPOs, Firm's age, Indian promoters, foreign promoters, non-institutional non-promoters and book build price mechanism are not found to be statistically significant indicating hardly relationship with the level of underpricing.

Peter Karlis (2000) in his paper on “IPO Underpricing” has observed that the vast majority of the theoretical models discussed in past research have linked the performance of an IPO on its 1st day of commercialism to communication factors. As mentioned above, the most prominent factor in the degree of underpricing has been the uncertainty that exists about the firm making the issue. The information about the firm available to the firm itself, the investors, and the investment bank is key factor in deciding the degree of under pricing that the IPO will receive. As uncertainty concerning the firm will increase, thus will the quantity of under pricing and consequently the initial 1st day gains.

Kooli&Suret (2001) In their paper on “The Under pricing of Initial Public Offerings: Further Canadian Evidence” has examined ex-ante uncertainty hypothesis, underwriter reputation hypothesis and market climate hypothesis in the context of the Canadian IPO market. The study has examined the relation between the degree of underpricing for a wide sample of 971 Canadian IPOs and ex-ante uncertainty from the period 1991-98. The average initial return for common share of IPOs is found to be 20.5% (22.5% with a market adjusted measure) in this study. According to the author, there appears to be no major difference between the degree underpricing of Canadian IPOs and previous international evidence. In this model of underpricing, the market climate variable takes a value of 1 for hot period and zero for cold period, underwriter reputation takes a value of 1 for a participation of a prestigious underwriter in the IPO and 0 otherwise. The model has ranked the top 25 underwriters under prestigious and no prestigious category. Similarly, the notion of ‘hot’ and ‘cold’ market is based on the numbers of IPOs and the corresponding amount raised during a given year under the reference period. The proceeds of the issue have been used as a proxy for ex-ante uncertainty. According to this study, a negative relationship exists between the level of underpricing and the ex-ante uncertainty and the reputation of the underwriter. Further, IPOs issued during an upswing in the stock market experienced a higher underpricing than IPOs issued during a falling market.

Alvarez & Gonzalez (2001) has analysed all the IPOs in the Spanish market during 1987 – 97 with a sample of 56 firms to provide evidence on initial underpricing and long run underperformance of IPOs. The results of this study show that the existence of long run underperformance depends upon the methodology used. There exists long run underperformance when BHAR are used, but the same is not the case when mean calendar time returns (monthly) are employed. Secondly, the study also shows that neither the characteristics of IPO i.e. IPO size, underwriters' reputation nor those of the firm in the year prior to going public have a statistically significant influence on the stock return of the firm three or five years after going public.

A. Research Hypothesis

The present study has following objectives

To study the Investors has certain objects while investing IPO.

To study the Investment decisions are influence by certain factors.

To study the numbers of problems are faced by Indian investors in IPO'S investment.

To identify the factors affecting short-run underpricing of IPOs in India.

B. Investors Benefits of the Study

- 1) *Access to Risk Capital:* Most corporations can notice it tough to boost equity from venture capitalists and different massive investors. It is not with regards to lack of convenience of potential investors. There is also investors obtainable however they will not be willing to present a good valuation to the entrepreneurial venture. In such cases, it'll be prudent to hunt equity investment from the general public UN agency may be willing to price the corporate a lot of munificently.
- 2) *Increased Public Image:* The public image of Associate in nursing enterprise additionally goes up once it's been in public listed. It gets more recognition from suppliers and customers. Also, it becomes easier to attract companies. Moreover, banks will also be more willing to lend to listed companies than to closely held firms.
- 3) *Facilitates Mergers and Acquisitions:* As a publically listed company, it's a lot of easier to hold out mergers and acquisitions. The processes get less complicated and valuations are for the most part market driven. As such valuation doesn't stay a neighborhood of a lot of concern.
- 4) *Liquidation:* Listing provides a chance to entrepreneurs to liquidate a section of their holdings. Also, if the venture has accessed venture capital in the past, listing gives an opportunity to venture capitalists to liquidate all or part of their holdings.
- 5) *Responsibilities:* A lot of responsibilities go hand in hand with obtaining listed. Some of the foremost responsibilities that entrepreneurs face once their corporations get listed are mentioned here.

V. MAJOR FINDINGS OF THE STUDY

Salient features of IPO under pricing which emerged after the analysis of the results of the descriptive statistics of the empirical data is summarized and concluded as under:

The Indian IPOs market is largely speculative in nature where the investors are looking for maximum return on their investment on the very first day of the listing of IPOs. In the alternative words, the investors are not taking a long term view on the market while subscribing to IPOs in the Indian market.

The period of higher market return is subsequently followed by period of high volume of IPOs. The pattern indicates that during an upswing in the market, an issuer try to take advantage of the bullish market trend and the issue may draw more investors leading to higher demand, particularly if the demand is correctly gauged throughout the book building method. In general, the lead and lag pattern with respect to market return is further confirmed when the short-run initial return on the issues covered in this research is plotted against the market return across time.

The overall trend of a higher standard deviation exhibited with higher number of issues in the Indian capital market confirms to the conventional wisdom among both academics and practitioners that the quality of the companies going public deteriorates as a amount of high supply volume progresses. A high level of under pricing for market segment like IT &It is on account of difficulties in valuation of their assets which are largely intangible nature. This is largely intangible nature. This indicates that industries with shorter and fewer data history are a lot of under-priced as there's a lot of uncertainty regarding the supply firms. Further, product victimization high-tech business are thought of risky than the normal business ensuing the 'high risk high growth' nature of these companies gives rise to higher uncertainty resulting into higher degree of under pricing.

VI. CONCLUSION

I suggest that board of prestige that may influence Indian investor's decision making process. The analysis of data reveals that number of the Indian investors take broker's advice while investing in IPO. The investors data analysis number of the respondents find the IPO procedure of difficult. The number of problem faced by the Indian investors is delay in refund and lack of clarity in allotment. The Indian investors to invest in IPO future prediction and projection, news relating to company IPO and financial performance.



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