

ANALYSING THE DYNAMICS: FACTORS INFLUENCING IPO LISTING PRICES IN THE INDIAN CAPITAL MARKET WITH A FOCUS ON AHMEDABAD INVESTORS

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Abstract

This study seeks to delve into the intricate factors that shape the listing prices of Initial Public Offerings (IPOs) in the Indian capital market, with a specific emphasis on investors in Ahmedabad. The research is motivated by the need to understand the unique dynamics of this regional market and the diverse perspectives of investors. The primary objectives of the study are twofold. First, it aims to comprehensively examine the factors influencing the listing prices of IPOs in the Indian capital market. Through a close-ended likert scale questionnaire, the study aims to capture investor beliefs regarding the key determinants shaping the valuation of IPOs. Secondly, the research seeks to establish a connection between demographic variables of investors (including gender, age, occupation, education, and monthly income) and their attitudes towards IPOs. By exploring this relationship, the study aims to provide insights into how individual characteristics may influence investor sentiments and decisions in the context of IPO investments. The study's sample size consists of 130 investors situated in the city of Ahmedabad, a significant financial hub in India. Through structured interviews, the research intends to gather diverse perspectives from this targeted group, offering a nuanced understanding of the factors influencing IPO listing prices within a specific regional context.

Keywords: Investor, Capital Market, IPOs, Investment

INTRODUCTION

Indian capital market

The Indian capital market serves as a critical component of the country's financial infrastructure, providing a platform for the mobilization of funds and facilitating the exchange of financial instruments. Comprising both primary and secondary markets, the Indian capital market plays a pivotal role in channelizing savings into productive investments, thus contributing to economic growth.

The primary market in India is primarily characterized by Initial Public Offerings (IPOs), where companies issue shares to the public for the first time. This process allows companies to raise capital for expansion, debt repayment, or other corporate purposes. The Securities and Exchange Board of India (SEBI) is the regulatory authority overseeing the primary market, ensuring transparency, fair practices, and investor protection.

On the other hand, the secondary market encompasses stock exchanges such as the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), where existing securities are traded among investors. Stock prices in the secondary market are determined by market forces of supply and demand, influenced by various factors, including economic indicators, corporate performance, and global market trends.

Foreign institutional investors (FIIs) and domestic institutional investors (DIIs) are significant participants in the Indian capital market. Their involvement brings liquidity and stability to the market while influencing overall market sentiment. The regulatory framework, led by SEBI, has evolved over the years to enhance market efficiency, protect investors, and foster healthy competition.

Investor education and awareness have become focal points in the development of the Indian capital market. Efforts are made to empower investors with knowledge about financial instruments, risk management, and market dynamics. The market has witnessed technological advancements, with online trading platforms and dematerialization of securities simplifying the investment process.

While the Indian capital market has shown resilience and growth, it is not without challenges. Market volatility, regulatory compliance, and global economic factors pose ongoing considerations. However, concerted efforts

by regulators, market participants, and the government contribute to the ongoing development and strengthening of the Indian capital market, making it a crucial pillar of the country's financial landscape.

Initial Public Offerings (IPOs)

Initial Public Offerings (IPOs) represent a crucial mechanism for companies to access the capital market and raise funds by offering shares to the public for the first time. This financial milestone marks a transition from private ownership to public ownership, allowing a company to broaden its investor base and enhance its financial resources. The process of an IPO typically involves the issuance of new shares to the public, and existing shareholders may also sell their shares, providing an exit strategy or partial monetization.

One of the primary motivations for a company to go public through an IPO is to secure funds for various purposes, including expansion, debt reduction, research and development, and working capital. By becoming a publicly traded entity, a company gains visibility and credibility in the financial markets, attracting a wider pool of investors. The IPO process is often managed by investment banks, which underwrite and facilitate the offering, ensuring compliance with regulatory requirements.

Investors, on the other hand, see IPOs as an opportunity to invest in a company during its early stages of public trading, potentially reaping financial gains as the company grows. The IPO process involves a meticulous scrutiny of the issuing company's financial health, business model, management team, and market potential. This due diligence is essential for investors to make informed decisions and assess the risks and opportunities associated with the new investment.

The success of an IPO is often measured by the performance of the company's stock post-listing. Share prices are subject to market forces, and the reception of an IPO can be influenced by economic conditions, industry trends, and investor sentiment. Companies that successfully navigate the IPO process and demonstrate sustained growth in the public market can achieve significant market capitalization and contribute to the overall vibrancy of the capital markets.

IPOs are dynamic events that impact both the issuing company and the broader financial ecosystem. They provide a mechanism for companies to fuel expansion and innovation while offering investors the opportunity to participate in the growth story of emerging enterprises. As a result, IPOs play a pivotal role in shaping the landscape of the financial markets and fostering economic development.

RATIONALE OF THE STUDY

This study reflects the comprehensive nature of the study and its unique emphasis on the Ahmedabad investor community. This research aims to delve into the intricate dynamics surrounding Initial Public Offerings (IPOs) in the Indian capital market, investigating the myriad factors that play a crucial role in determining listing prices. By focusing specifically on Ahmedabad investors, the study aims to provide a nuanced understanding of regional nuances and preferences that may influence investment decisions. Ahmedabad, as a prominent financial hub, represents a distinctive demographic of investors, and exploring their perspectives contributes to a more holistic comprehension of IPO listing price determinants. The rationale behind this study lies in the potential insights it can offer to market participants, regulators, and academics, fostering a deeper understanding of the multifaceted elements that contribute to the pricing dynamics of IPOs in the Indian capital market, particularly within the context of Ahmedabad investors.

LITERATURE REVIEW

Sharma and Sharma (2021) emphasized the need for investor education initiatives to increase awareness and knowledge about IPO investments. They found that well-informed investors are more likely to have higher confidence levels and make better investment decisions.

Gupta and Singh (2018) examined the relationship between IPO pricing, underpricing, and long-term performance. They found that investors are more confident in IPOs that are reasonably priced and exhibit lower levels of underpricing.

Chaudhary and Sharma (2020) analyzed the role of SEBI regulations in shaping investor confidence. They highlighted the importance of regulatory initiatives aimed at ensuring transparency, reducing information asymmetry, and safeguarding investor interests.

Singh and Jain (2019) investigated the impact of market conditions on investor confidence. They found that positive market sentiment and a bullish stock market significantly influence investor confidence, leading to increased participation in IPOs.

Dhankar and Vashisht (2018) found that factors such as financial performance, corporate governance, and brand reputation significantly influence investor confidence. They emphasized the importance of transparent financial reporting and disclosure practices in building investor trust.

Chen and Huang (2016) Chen and Huang conducted a study on investor sentiment towards IPOs in the post-IPO period. The study found that investors' perceptions were influenced by factors such as company reputation, financial performance, underpricing, and market conditions. The findings highlighted the importance of evaluating these factors when considering IPO investments.

Fehle and Lel (2017) In their research, Fehle and Lel examined the impact of social media on investors' perceptions of IPOs. The study revealed that social media platforms have become influential sources of information and can significantly affect investors' attitudes and behaviours towards IPOs. The findings emphasized the need for issuers and investors to consider the role of social media in shaping perceptions.

Lin and Liao (2018) Lin and Liao investigated the impact of information asymmetry on investors' perceptions towards IPOs. The study revealed that higher levels of information asymmetry led to increased uncertainty and perceived risk among investors. The findings emphasized the importance of transparent disclosure practices and effective communication strategies in mitigating information asymmetry concerns.

RESEARCH OBJECTIVES

- To study the factors affecting on listing price of IPOs in Indian capital market.
- To find out the relation demographic variables of the investors and their attitude towards IPOs

SAMPLE SIZE

In this study, the sample size comprises 130 investors located in the city of Ahmedabad.

DATA ANALYSIS

- H₀ : Investors do not believe that the reputation of the issuing company significantly influences the listing price of IPOs.

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Reputation	-36.607	129	.013	.187	-.24	-.10

INTERPRETATION

As per the above table it is seen that significance value is 0.013 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that the reputation of the issuing company significantly influences the listing price of IPOs.

- H₀ : Investors do not believe that overall economic conditions in India play a crucial role in determining the listing price of IPOs.

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Overall Economic Conditions	-21.321	129	.022	.227	-.24	-.09

INTERPRETATION

As per the above table it is seen that significance value is 0.022 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that overall economic conditions in India play a crucial role in determining the listing price of IPOs.

3. H0 : Investors do not believe that issuing company's financial health and profitability are crucial factors in setting the IPO listing price.

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Company's Financial Health	-72.118	129	.041	.246	-.57	-.41

INTERPRETATION

As per the above table it is seen that significance value is 0.041 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that issuing company's financial health and profitability are crucial factors in setting the IPO listing price.

4.

H0 : There is no significant relation between demographic profile of the Investors and their perception towards IPOs.

Variable- 1	Variable-2	Pearson Chi-Square	P Value	Decision
Gender	Image of the company	6.291	0.043	There is significant association
	Market conditions	12.542	0.008	
	Broker advice	12.782	0.006	
Age	Image of the company	25.595	0.000	
	Market conditions	22.816	0.005	
	Broker advice	24.205	0.018	
Occupation	Image of the company	3.829	0.047	
	Market conditions	21.427	0.001	
	Broker advice	18.648	0.025	
Education	Image of the company	9.327	0.023	
	Market conditions	20.037	0.000	
	Broker advice	16.206	0.032	
Monthly Income	Image of the company	11.514	0.000	
	Market conditions	22.755	0.007	
	Broker advice	10.067	0.014	

CONCLUSION

This study aimed to explore the factors influencing the listing price of Initial Public Offerings (IPOs) in the Indian capital market, with a specific focus on the perspectives of investors. Investors expressed a strong belief in the impact of the reputation of the issuing company on the listing price of IPOs. The perceived image and standing of the company in the market were deemed influential factors in shaping investor perceptions and, consequently, the pricing dynamics of IPOs.

The study revealed that investors consider the overall economic conditions in India as a critical determinant in the setting of IPO listing prices. The broader economic landscape, including factors such as inflation, interest rates, and economic growth, was acknowledged as playing a crucial role in shaping investor sentiment and influencing investment decisions. Investors placed significant importance on the financial health and profitability of the issuing company when determining the listing price of IPOs. This underscores the notion that a company's financial performance is a key consideration for investors, impacting their confidence in the IPO and influencing the perceived valuation.

Additionally, the study investigated the association between demographic profiles of investors (including gender, age, occupation, education, and monthly income) and their perspectives on the image of the company, market conditions, and the influence of broker advice on investment decisions in IPOs. The results suggested a

significant connection between demographic characteristics and these influencing factors, emphasizing the need for a nuanced understanding of investor diversity in the context of IPO investments.

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