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Perception of Investors towards IPO

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ABSTRACT:

The primary goal of this research is to look into investors' perceptions of initial public offerings (IPOs), to analyse the relationship between various factors (quality management, company goodwill, company performance, company sector, and market information) and investment decisions, and to look into the factors that influence IPO investment decisions. This study relied on primary data. The information was gathered from 200 people who worked for five different brokerage businesses in India. In SPSS, inferential analysis was favoured, which included analysing the connection between variables and the influence of various factors on investment decisions using statistical methods.Quality management, business goodwill, company performance, company sector, and market knowledge are all extremely significant elements to consider before making an IPO investment choice, according to the researc h.

Keywords: IPO, Investors, Initial Public Offering, Perceptions, Financial Market.

INTRODUCTION:

An initial public offering (IPO), also known as a stock market launch, is a sort of public offering in which a company's shares are offered to institutional investors, who then sell them to the general public for the first time on a securities exchange. A privately owned corporation becomes a publiccompany via this method. Companies often utilise initial public offerings to generate funds, presumably to monetize the investments of early private investors, and to become publicly listed corporations. A firm that sells stock is never compelled to reimburse its public investors. Money transfers between public investors after the IPO, when shares trade freely on the open market. Although an IPO has numerous benefits, it also has some drawbacks, the most notable of which being the fees connected with the process and the necessity to divulge some information that might be useful to rivals. Going public is a term used to describe the IPO process.

Potential buyers are given information about the prospective offering in the form of a prospectus, which is a long document. The majority of firms choose an investment banking company as an underwriter for their first public offering. Underwriters assist in determining the value of shares (share price) and establishing a public market for shares, among other things (initial sale). Alternative approaches have been investigated, such as the Dutch auction. The Google IPO and Snap Inc., the parent firm of Snap Chat, are the two most noteworthy instances of this strategy in terms of scale and public engagement. India has lately risen to prominence as asignificant IPO market, with some of the world's biggest IPOs taking place there.

PROCEDURE: Various regulations regulate IPO proceedings in different nations. The Securities and Exchange Commission regulates initial public offerings in the United States under the Securities Act of 1933.

Planning in advance: A successful IPO requires careful planning. According to one book, there are seven phases to advance planning:

1. Establish a strong management and professional staff.
2. Expand the company's operations while keeping an eye on the public market.
3. Obtain audited financial statements prepared in accordance with IPO-accepted accounting rules.
4. Sanitize the company's image.
5. Put in place anti-takeover protections.
6. Establish effective business governance.
7. Take advantage of IPO windows and create insider bailout possibilities.

Underwriters' retention: The process of launching an IPO is known as underwriting. The practise of obtainingfunds via debt or equity is known as underwriting.

Sebi registration: The investment bank prepares a registration statement to be submitted with the SEBI after the transaction is finalised. This document provides information about the offering as well as information about the firm, such as financial statements, management history, any legal issues, and how the money will be utilised, among other things.

Pricing and allocation: An IPO's share sale (allocation and price) may take numerous forms. Common.

Among the approaches are:

• Bought deal

• Best efforts contract

• Firm commitment contract

• All-or-nothing contract

Pricing: A lead manager, also known as a book runner, is typically hired by a company planning an IPO to assist in determining an appropriate price at which the shares should be issued.

Quiet time: During the history of an IPO, there are two time windows known as "quiet periods" under American securities law.

Shares are delivered: Not all IPOs are qualified for DTC delivery settlement, which would need either physical delivery of stock certificates to the clearing agent bank's custodian or a delivery versus payment (DVP) agreement with the selling group brokerage firm.

Applying for an India initial public offering: When a company considers a public offering, or IPO, it provides shareholders with documents to fill out. Only a limited number of public shares are available for purchase. The submission form must be completely filled out and sent by cash, check, or DD by the deadline, following the instructions on the form.

OBJECTIVES OF THE STUDY: 1. To investigate investor perceptions of initial public offerings (IPOs).

2. To investigate the post-issue performance of a number of initial public offerings (IPOs) that took place in 2007-2019.

3. To investigate the reasons for selling stocks at a discount.

4. Investigate the methodology used to determine the issue price.

Hypothesis of the study: Hypothesis Ho: The majority of investors see initial public offerings (IPOs) as long-term lucrative investments.

Hypothesis H1: The majority of investors do not see IPOs as long-term beneficial investment opportunities.

REVIEW OF LITERATURE:

IPO Frms' Post-Issue Operating Performance:

Both before and after industry adjustment, we find that IPO businesses' post-IPO operational performance, as measured by operating return on assets and operating cash flows deflated by assets, is lower than pre-IPO levels. However, there is a caveat to the IPO corporations' declining operational performance. In the post-IPO era, these companies have had rapid growth in revenue and capital expenditures as compared to others in the same sector. As a result, IPO enterprises' decreasing operational performance cannot be blamed to a lack of sales growth possibilities or post-IPO capital expenditure cuts. We also find that IPO businesses with larger levels of entrepreneur ownership perform better than other issuing firms, both before and after adjusting for industry effects. There is no link between post-IPO improvements in operational performance and initial IPO results.

A Review of Initial Public Offering (IPO) Activity, Pricing, and Allocations:

The goal of this paper is to examine several reasons for trends in issuing activity, underpricing, and long-term underperformance. However, it also considers our personal views on still-controversial matters. We feel that the time-varying nature of these events warrants additional attention. The long-run performance of IPOs is affected not just by the hotly discussed choice of econometric technique, but also by the sample period used. Furthermore, we suggest that asymmetric information theories are unlikely to be the key predictor of IPO activity and underpricing swings, particularly during the Internet boom era. Rather, we anticipate that nonrational explanations and agency explanations will play a larger role in future research. We've spoken about underpricing hypotheses before give the question of share allocations and future ownership a lot of thought One of the most fascinating subjects in IPO research today, in our opinion, is how IPO shares are distributed.

Predilections for IPO post-issue markets: dubious, but diligent learners?

The performance of initial public offerings (IPOs) after they are issued has long been a mystery. In the long term, IPOs underperform traditional benchmarks or equities in appropriately matched companies. Numerous follow-up research have validated the puzzle. (See, for example, Financial Management, Spring 1993, Jain and Kini (2014), and Loughran and Ritter, 2015.) The research is now widely accepted as indicating that the market is overconfident when pricing new concerns. It progressively discovers its errors and adjusts pricing as the difficulties develop. Although some have suggested that market biases prior to the issue date are a natural result of shortsale limitations (Miller, 2017; Morris, undated), it might also be a reflection of market perceptions at the time. Indeed, the majority of research focuses on initial public offerings (IPOs) that took place in the 1970s and 1980s. The fact that priors were skewed during this time period does not necessarily suggest irrationality, since the bias was only discovered ex post, with the benefit of hindsight. Instead, it seems like a better question to ask is whether the market's following shifts in opinions were reasonable. We know exactly what this implies if beliefs can be stated in terms of classical probability theory's chance numbers: changes should follow the principles of conditional probability (Bayes' law). 1 We will also take this to mean that the market knows the likelihood of the signals it receives given the eventual fate of an issue (will it default?). We set out to test this weaker restriction on market beliefs.

RESEARCH METHODOLOGY

Research design

Descriptive research

Type of research

Exploratory Research was employed in this research

Research equipment

Questionnaire

Sampling method

Non-probability technique

Sampling frame

Conveniencesampling

Sample design

Data has been presented with the help of bar graphs, pie- charts, etc.

Sources of data

Both the primary sources and secondary sources of data have been used to conduct the study.

Primary source

The primary data for this study has been collected by approaching the salaried employees via internet (digital survey method).

Secondary source

The secondary data are collected from articles published on various websites (desk research).

Plan of analysis

- Diagrammatic representation through graphs and charts
- Suitable inferences will be made after applying necessary statistical tools.
- Findings & suggestions will be given to make the study more useful

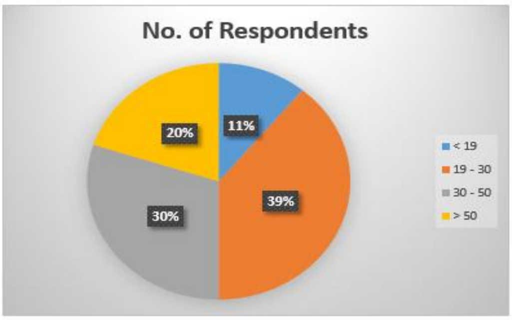
Sample technique:

In this research, convenience sampling is employed as a technique. Convenience sampling is a sort of nonprobability sampling in which a sample is taken from a population segment that is near to hand.

DATA ANALYSIS AND INTERPRETATION

1.Investors by age group

Sl. No.	Age Group	No. of Respondents	Percentage
1	< 19	22	11
2	19 - 30	78	39
3	30 - 50	60	30
4	> 50	40	20



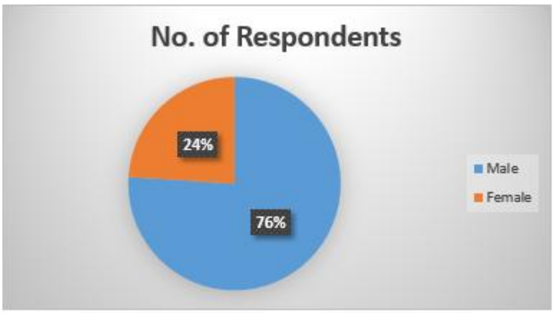
Interpretation:

According to the aforementioned data, 78 percent of investors ready to participate in IPOs are between the ages of 19 and 30, 39 percent are between the ages of 30 and 50, 20 percent are above 50, and a minority of 11% are under the age of 19.

It may be stated that the bulk of investors interested in IPOs are between the ages of 19 and 30.

2. Sex of investors

Sl. No.	Sex	No. of Respondents	Percentage
1	Male	152	76
2	Female	48	24



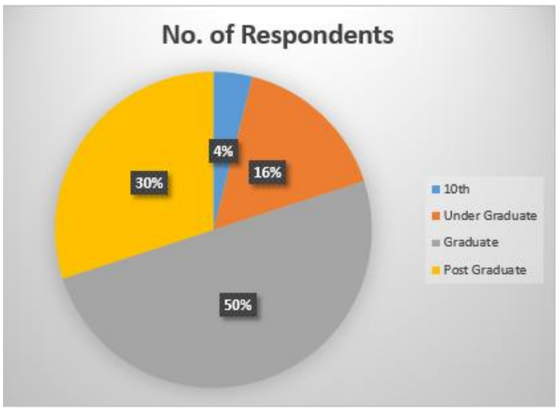
Interpretation:

The following table and graph plainly show that the majority of investors, 76 percent, are male and 24 percent are female.

The majority of investors interested in IPOs are men, it may be argued.

3. Investors' degree of education

Sl. No.	Education	No. of Respondents	Percentage
1	10th	8	4
2	Under Graduate	32	16
3	Graduate	100	50
4	Post Graduate	60	30



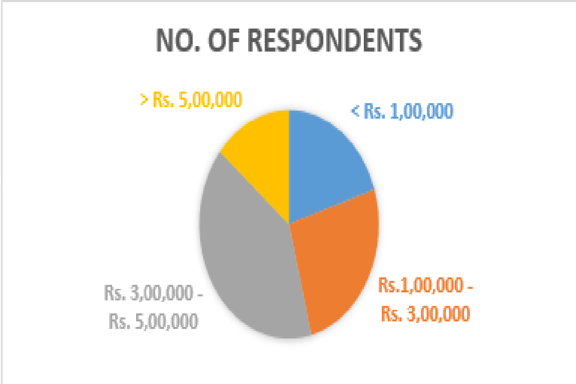
Interpretation:

The table and graph demonstrate that graduates account for 50% of the sample, followed by postgraduates (30%), undergraduates (16%), and investors with just a 10th-grade education accounting for 4% of the sample.

According to the statistics gathered, the bulk of IPO investors are educated graduates.

4. Investors' income range

Sl. No.	Income Range	No. of Respondents	Percentage
1	< Rs. 1,00,000	40	20
2	Rs.1,00,000 - Rs. 3,00,000	52	26
3	Rs. 3,00,000 - Rs. 5,00,000	80	40
4	> Rs. 5,00,000	28	14



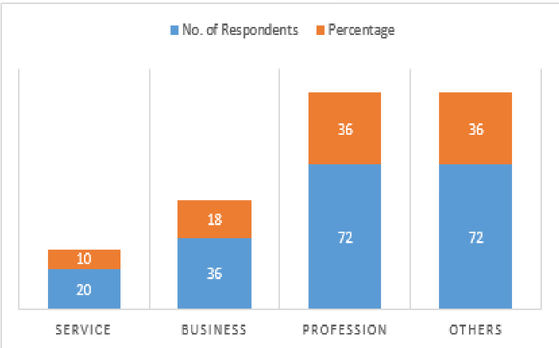
Interpretation:

The preceding data clearly demonstrates that 40% of IPO investors earn between Rs. 1,00,000 and Rs. 5,00,000, followed by those earning between Rs. 1,00,000 and Rs. 3,00,000, who make up 26% of the sample, then those earning below 1,00,000, and a minority of 14% of investors earn beyond Rs. 5,00,000.

According to the data, the bulk of investors who participate in IPOs have an annual income of Rs. 3,00,000 to Rs. 5,00,000.

5. Investors' occupation

Sl. No.	Occupation	No. of Respondents	Percentage
1	Service	20	10
2	Business	36	18
3	Profession	72	36
4	Others	72	36



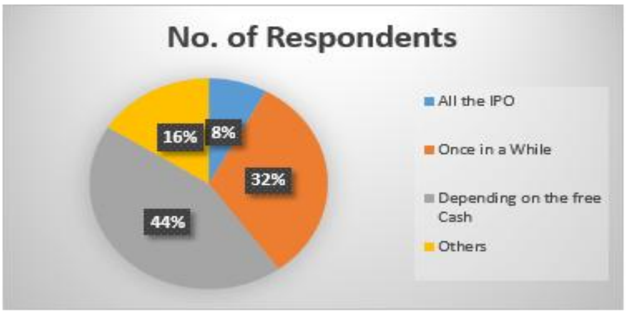
Interpretation:

According to the table and graph above, professionals and investors from other occupations invest equally in IPOs, accounting for 72 percent of the sample, businessmen account for 18 percent, and investors from other services account for 10%.

Professionals and non-professional investors alike participate in initial public offerings.

6. Investment frequency

Sl. No.	Frequency	No. of Respondents	Percentage
1	All the IPO	16	8
2	Once in a While	64	32
3	Depending on the free Cash	88	44
4	Others	32	16



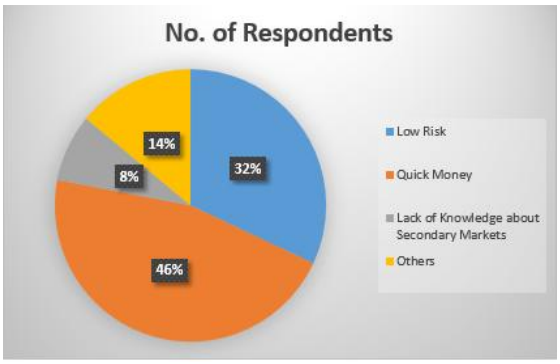
Interpretation:

The table above depicts the frequency with which investors invest in IPOs. About 44 percent of investors invest based on free cash availability, 32 percent invest once in a while, 16 percent invest based on other variables, and 8% participate in all IPOs.

It may be claimed that the bulk of investors' investing patterns are influenced by the amount of free cash they have on hand.

7. The reason for choosing an IPO is to achieve a certain goal.

Sl. No.	Objective	No. of Respondents	Percentage
1	Low Risk	64	32
2	Quick Money	92	46
3	Lack of Knowledge about Secondary Markets	16	8
4	Others	28	14



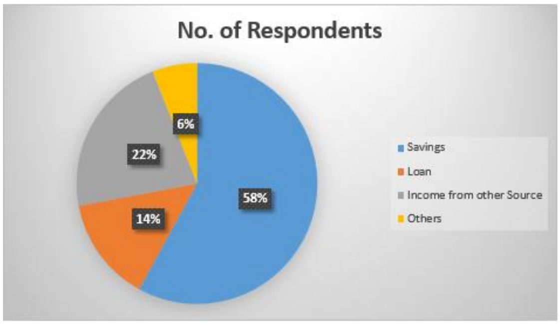
Interpretation:

The investor's goal for investing in an IPO is shown in the table and chart above. 46 percent of investors invest with the intention of generating fast money, 32 percent believe it is a low-risk investment, 14 percent have other goals, and 8% have no awareness of secondary markets.

The bulk of investors participate in IPOs with the goal of generating rapid money since they provide larger returns on the day of listing.

8. Funding source for investment

Sl. No.	Funds	No. of Respondents	Percentage
1	Savings	116	58
2	Loan	28	14
3	Income from other Source	44	22
4	Others	12	6



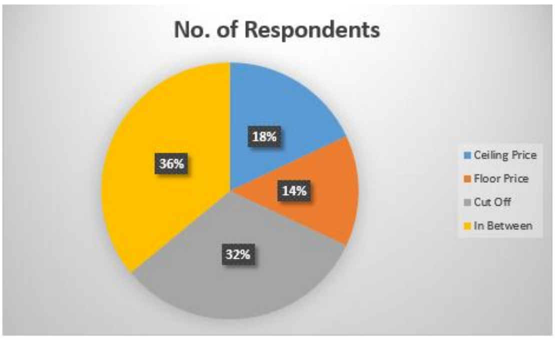
Interpretation:

The majority of investors (58%) use personal savings as a source of money for IPO investments, while 22% use cash from other sources, 14% use borrowed funds, and 6% have other sources of funds for IPO investments.

It may be argued that a majority of 58 percent of investors put their money into initial public offerings.

9. Price range for bidding

Sl. No.	Bidding Price	No. of Respondents	Percentage
1	Ceiling Price	36	18
2	Floor Price	28	14
3	Cut Off	64	32
4	In Between	72	20



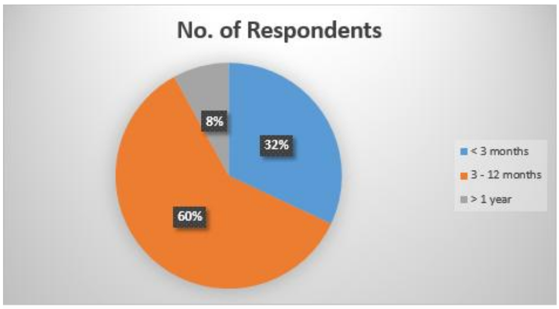
Interpretation:

According to the aforementioned data, 36 percent of investors bid midway between the price bands, 32 percent at the cutoff price, 18 percent at the ceiling price, and the remaining 14 percent at the floor price.

Most investors, it might be claimed, like to bid in the middle of an IPO's price range.

10. The holding time

Sl. No.	Holding Period	No. of Respondents	Percentage
1	< 3 months	64	32
2	3 - 12 months	120	60
3	> 1 year	16	8



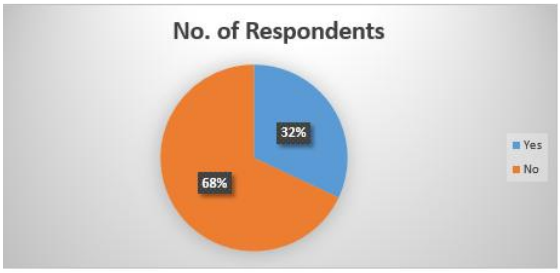
Interpretation:

The accompanying data provides an estimate of the average holding duration for a publicly traded IPO. 60% of investors hold for three to twelve months, 32% for less than three months, and 8% for more than a year.

The bulk of investors, it may be argued, invest in IPOs with a short-term outlook.

11. Investors' forward trading

Sl. No.	Forward Trade	No. of Respondents	Percentage
1	Yes	64	32
2	No	136	68



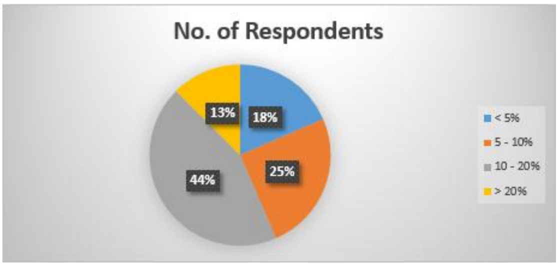
Interpretation:

The foregoing information pertains to investors who engage in forward trading. The majority of investors do not forward trade; they account for 68 percent of the sample, while the remaining 32 percent do so.

The bulk of investors are either uninformed about or uninterested in forward trading.

12. Forward trading premium expected

Sl. No.	Expected Premium	No. of Respondents	Percentage
1	< 5%	37	18.75
2	5 - 10%	50	25
3	10 - 20%	88	43.75
4	> 20%	25	12.5



Interpretation:

44 percent of forward traders predict a premium of 10–20 percent, 25% expect a premium of 5–10 percent, 19 percent expect a premium of less than 5%, and 12% expect a premium of more than 20%.

It might be claimed that when investors forward trade, they hope to gain more than they would if they sold them on the secondary market.

FINDINGS

1. According to the aforementioned data, 78 percent of investors ready to participate in IPOs are between the ages of 19 and 30, 39 percent are between the ages of 30 and 50, 20 percent are above 50, and a minority of 11% are under the age of 19.

It may be stated that the bulk of investors interested in IPOs are between the ages of 19 and 30.

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4. The preceding data clearly demonstrates that 40% of IPO investors earn between Rs. 1,00,000 and Rs. 5,00,000, followed by those earning between Rs. 1,00,000 and Rs. 3,00,000, who make up 26% of the sample, then those earning below 1,00,000, and a minority of 14% of investors earn beyond Rs. 5,00,000.

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It may be claimed that the bulk of investors' investing patterns are influenced by the amount of free cash they have on hand.

7. The investor's goal for investing in an IPO is shown in the table and chart above. 46 percent of investors invest with the intention of generating fast money, 32 percent believe it is a low-risk investment, 14 percent have other goals, and 8% have no awareness of secondary markets.

The bulk of investors participate in IPOs with the goal of generating rapid money since they provide larger returns on the day of listing.

8. The majority of investors (58%) use personal savings as a source of money for IPO investments, while 22% use cash from other sources, 14% use borrowed funds, and 6% have other sources of funds for IPO investments.

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It might be claimed that when investors forward trade, they hope to gain more than they would if they sold them on the secondary market.

LIMITATIONS

• The share prices are calculated using data from the "capitalize" database, and any data errors may be reflected in the research.

• The research was confined to investors who participate in initial public offerings (IPOs), with a sample size of just 100 people. As a consequence, generalising findings has its own set of constraints.

• Only three months' worth of share prices were included in the examination of IPOs after they were listed.

• The amount of time available for the research was restricted.

CONCLUSION

The research was carried out to determine the post-issue performance of a sample of 2007 IPOs that were priced over Rs. 500. The research also took into account investor perceptions of IPOs.

According to the survey, most enterprises took advantage of the primary market's growth and joined the market, raising large sums of money from the general population. However, owing to a variety of factors including overvaluation of the issue and market circumstances, the majority of them were unable to produce value for shareholders. Investing in initial public offerings (IPOs) is a better alternative than investing in shares on the secondary market for a variety of reasons, including security, the potential for higher returns, and the ability to quote at a premium. According to this report, the majority of investors use the internet to research potential investments. As a result, investors must analyse the trading price of the peer group, profits of comparable businesses in the industry, and P/E ratios.

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- Data Bases: www.capitaline.com www.jstor.com Prowess