



A Study of Investor's Preference Regarding Initial Public Offering (IPO)

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INTRODUCTION

The first public offering of equity shares or convertible securities by a company, which is followed by the listing of a company's shares on a stock exchange, is known as an 'Initial Public Offering'. In other words, it refers to the first sale of a company's common shares to investors on a public stock exchange, with an intention to raise new capital.

The most important objective of an IPO is to raise capital for the company. It helps a company to tap a wide range of investors who would provide large volumes of capital to the company for future growth and development. A company going for an IPO stands to make a lot of money from the sale of its shares which it tries to anticipate how to use for further expansion and development. The company is not required to repay the capital and the new shareholders get a right to future profits distributed by the company.

Before deciding whether one should complete an IPO, it is important to consider the positive and negative effects that going public may have on their mind. Typically, companies go public to raise and to provide liquidity for their shareholders. But there can be other benefits. Going public raises cash and usually a lot of it.

Investing in IPO has its own set of advantages and disadvantages. Where on one hand, high element of risk is involved, if successful, it can even result in a higher rate of return. The rule is: Higher the risk, higher the returns. The company issues an IPO with its own set of management objectives and the investor looks for investment keeping in mind his own objectives. Both have a lot of risk involved. But then investment also comes with an advantage for both the company and the investors.

Literature review

Arwah Arjun Mamdan (2003), in his research work mentioned that once IPO's are listed, after 5 years, there is a drastic fall in their returns. Anand Adhikari (2010), pointed out that those companies which has unique business models in 2009, 2010, have made their investors reach..

Mahesh Nayak, (2010) in his article, point out that, IPOs have grown in size and entered their own brave new world. Further he states that raising money in India's booming economy cannot be a onetime affair; if a company does not maintain a good relationships with investors and rewards them well it may not able to go back to them when it want to raise money later.

Jagannadham Thunuguntla (2011) in his research ,pointed out that, the age old philosophy of understanding the company and sticking to the basics should be given due respect. Let the buyer be made aware that the investor has to put a price tag to his hard earned money. There is a dire need for investor education and awareness and the connections should be on a stable income than a becoming rich overnight.

Research Methodology

1. Research methodology is way to systematically solve the research problem. Research, in common terms refers to a search for knowledge. Research methodology consists of different steps that are generally adopted by a researcher to study the research problem along with the logic behind them.

2. Descriptive study is used to study the situation. This study helps to describe the situation. A detail descriptive about present situation can be found out by the descriptive study. In this involve the analysis of the situation using the secondary data and primary data. In this project work secondary data and primary data are used.
3. The aim of this research is to empirically investigate the perception of Indian investors towards IPO.
4. To analyze and evaluate the complex IPO process and study and incorporate the legal requirements of an IPO, SEBI Norms and Guidelines.

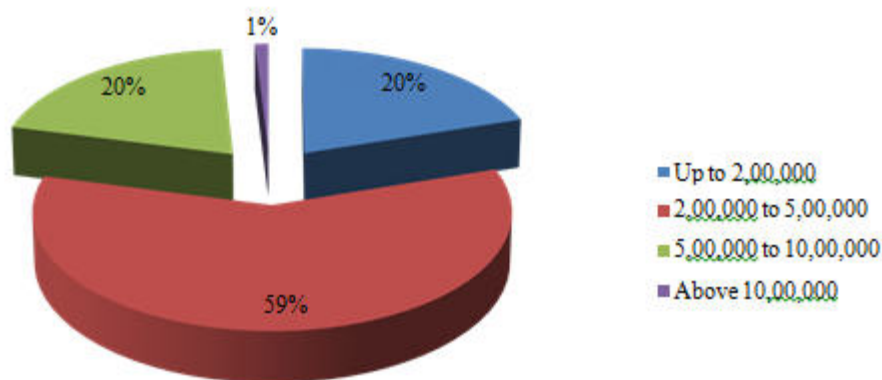
Objectives of Study

1. To find out the level of awareness about IPO in the investors.
2. To find out investors confidence level and their preference while investing money (whether investors feel that they can make money in the stock market?).
3. To analyze and evaluate the complex IPO process and study and incorporate the legal requirements of an IPO, SEBI Norms and Guidelines

Data Analysis and Interpretation

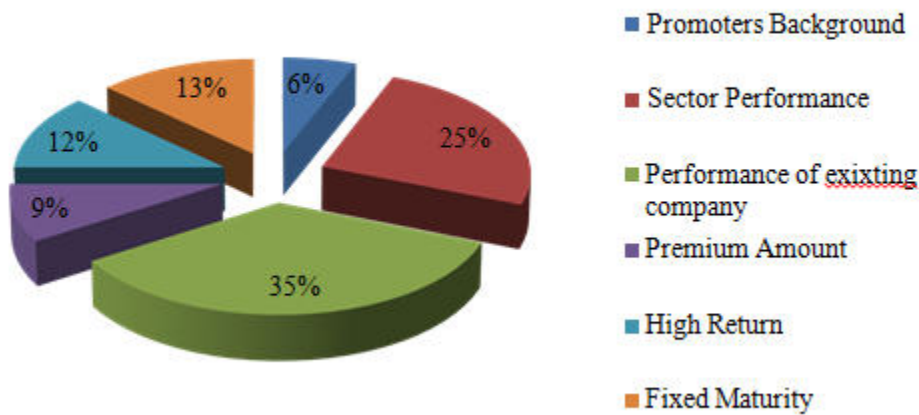
The above mainly talks about the various occupational details of various respondents who participated in the survey. We can see that the maximum number of respondents were Employed followed by Self employed, students and Part time workers and Retired persons. This clearly shows us that the maximum numbers of people who are interested in investment activities are employed persons; they have the panache for investment activities. They are nearly 68% of the sample. The interesting factor is that the employed persons are very much interested in investment activities which are a very good sign.

Distribution on the basis of Income



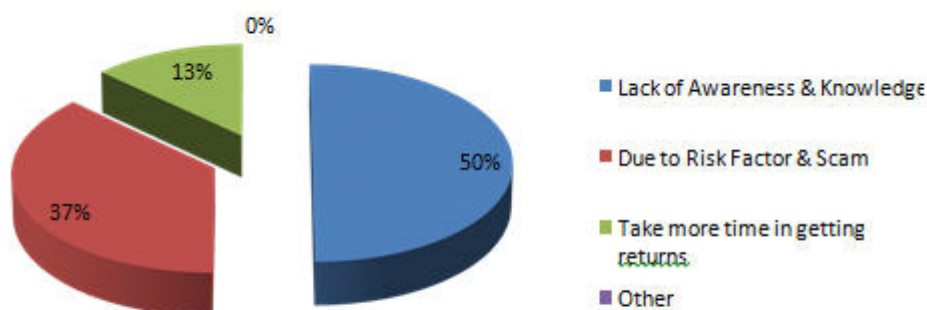
The income level of various respondents is depicted in the above chart. We can see that the maximum number of people fall in the category of 2,00,000 to 5,00,000 Lakhs followed by the people falling Up to 2,00,000 Lakhs category. There are comparatively less people in the 5,00,000 to 10,00,000 category and very few people in the more than 10,00,000 category. This shows that the investors fall in both high income and low income categories. These are those people who are interested in investing in IPOs

What do you see before investing in IPO?



The various factors that should be considered before investing in an IPO. Out of total samples taken, 35% of the people believe that one should consider performance of existing company whereas 25% believe that sector performance needs to be considered compared to others, 13% people goes for the fixed maturity, 12% people considers high for perusing IPO, 9% believe that Premium Amount should be considered compared to others and the rest 6% feel that the promoters are the most important factor for taking a decision in the investment of IPO.

Reasons for not investing in IPO



It clearly shows that 50% of people who don't invest in IPOs are due to lack of awareness and knowledge. And second most important reason is risk factor and recent scam which are associated with IPO. Also delay in getting returns is also one of the factors.

CONCLUSION

1. After making the project, we would like to conclude that IPO is no more risky investment as SEBI is playing very important role in regulating the risk and financial aspects of the investors. As per our finding IPOs gives returns up to 10% to 20% to 88 of total investors hence IPO can be consider good option for investment.
2. Therefore, conclude that IPO is not a risky investment with the help of careful research and study and with the help of broker advice the individual investor can predict what the stock or shares will do on its initial day of trading up to some extent.

3. Also this project report has proven that large no of investors have shown confidence in IPO and prefer to invest in IPO and according to them IPO is one of the good option for Investment.

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