International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

IPO Investment Strategy of Retail Investors in Mumbai

Diganshu Jain.

Student, H.R College, HSNC University, Mumbai

INTRODUCTION

In the post-pandemic world, crowding may have decreased, but if you're on IPO Street, it still exists. In the post-pandemic era, the average number of retail investors subscribing to debut offerings has nearly quadrupled.

Consider this: Small investors, those spending up to Rs 200,000, submitted an average of 1.3 million applications for the 20 initial public offers (IPOs) that have been available since September 2022. According to statistics given by major market tracking company Prime Database, the average number of applications for the 20 IPOs that took place before the shutdown in March was about half a million.

Why are flocking investors to the IPO market, then?

Market watchers claim that a number of factors—including buoyancy in the secondary market, strong post-listing results for many IPOs, and convenience in account creation and IPO application—have come together.

More than 10 million new dematerialized accounts were established between April and February.

According to experts, the majority of the new generation investors are millennials, and they prefer IPOs.

"During the lockout, we saw an unprecedented 1 million demat accounts added per month. The new investors contributed to a greater level of IPO participation, according to Sandeep Bhardwaj, CEO of IIFL Securities' retail investors brokerage division.

Objectives of study

1. To identify the factors that influence the decision-making process of retail investors when investing in IPOs.
2. To explore the behavioral biases that affect the investment decisions of retail investors in the IPO market.
3. To identify the most common types of IPOs that retail investors tend to invest in and the reasons behind their choices.
4. To study why Zerodha is the only profit making online broker.
5. To examine if there’s a relation between Professional Degree holding and investment behaviour

Hypothesis

The study examines initial and post-listing performance of IPOs. Therefore, the hypotheses being tested are:

(1) The IPOs are not underpriced based on the listing day performance.

(2) Investors cannot earn abnormal returns from IPOs in the post-listing period performance.

Literature review

An Exploration Into The Determinants Of Retail investors Investment Behaviour About IPOs In Indian Scenario

This paper identifies constructs involved in Retail investors Investment Behaviour towards Initial Public Offers and suggest a model to understand the relationship between various construct considered. Data was collected through structured questionnaire from selected sample size and finally 504 responses were used to justify the structure. The study determined four variables Information Asymmetry, Representativeness and Familiarity (Heuristics), Market/Company Perception and Societal Perception. Also, the study contributed in identifying a model that can show a meaningful relationships among the variables identified and Intention of an investor towards IPO investments. Information Asymmetry had an indirect relationship with Intention by modifying the perception of either through the Representativeness and Familiarity or through the Market and Company Perception.

The Distribution of Information among Institutional and Retail investors in IPOs

This study examines investor performance in IPOs using a unique database comprising 85,384 and 29 offerings from Finland. The evidence indicates that on average institutional do not obtain larger initial returns than retail investors , as the incentive to acquire information is limited by allocation rules which favour small orders. This result is in contrast to findings by Aggarwal et al. (2002), who show that institutional perform better in a bookbuilding environment. Within each investor category, however, large orders are associated with the best performance, suggesting that information differences figure more importantly within rather than between categories.

How Do Retail Investors Choose Investments? Evidence from the Indian IPO After-Market

Research indicates that firms with high institutional investment outperform firms with low institutional investment, suggesting that institutions have informational advantages over individuals. We investigate whether IPO grading in India enables retail investors to invest more like institutions in the IPO aftermarket. We find that it does not. While institutions hold high grade, high priced IPO firms, small retail investors hold firms with low IPO grades and offer prices. However, individuals do not seem to earn lower returns, perhaps because grading or an open book-building method discourages the worst firms from going public.

RESEARCH METHODOLOGY

Secondary Data

Secondary data refers to data that has already been collected and analyzed by someone else. It is often used in research to supplement primary data, which is original data that is collected by the researcher directly from the source. Secondary data can come from a wide range of sources, including government reports, academic studies, market research, and historical data.

One of the advantages of using secondary data is that it can be a cost-effective and time-saving way to gather information. Since the data has already been collected, the researcher does not have to spend time and resources to gather it again. This can be especially useful for large-scale studies that require a lot of data.

Another advantage of secondary data is that it can provide historical context for research. For example, if a researcher is interested in studying a particular trend over time, they can use historical data to track changes and make comparisons. This can provide valuable insights that might not be possible with only primary data.

In addition, secondary data can be a useful source of information for studies that require a large sample size. For example, if a researcher is studying a particular population or demographic, it may be difficult to gather a large enough sample size using primary data collection methods. In this case, secondary data can be a valuable resource for supplementing the primary data.

Types of Investors :-

Qualified Institutional Bidders:

QIB's are qualified institutional buyers as defined by SEBI's Issue of Capital and Disclosure Requirements (ICDR) regulations. Generally, 50% of the offer is

Primary Data

Primary data refers to the original data that is collected directly from the source. In other words, it is the data that is collected first-hand by the researcher through methods such as surveys, experiments, observations, and interviews. Primary data is unique because it has not been previously collected or analyzed, and is often more reliable and accurate than secondary data.

Primary data is collected for a specific research purpose, and the researcher has full control over the collection process. This means that the data can be tailored to meet the research needs and objectives, and the researcher can decide what information is relevant and what is not. Primary data collection can be done through various methods such as questionnaires, focus groups, interviews, and observations.

The advantages of using primary data in research are many.

Firstly, it is collected directly from the source, which makes it more reliable and accurate.

Secondly, the data can be customized to meet the specific research objectives, and can provide greater depth and detail than secondary data.

Thirdly, primary data is more current and relevant as it is collected in real time. Finally, it provides a higher level of control over the data collection process and eliminates the possibility of bias and errors.

However, there are also some disadvantages of using primary data.

Collecting primary data can be time-consuming and expensive, and the sample size may be limited due to budget and time constraints.

Additionally, there may be limitations in the validity and reliability of the data due to potential biases or errors in the collection process.

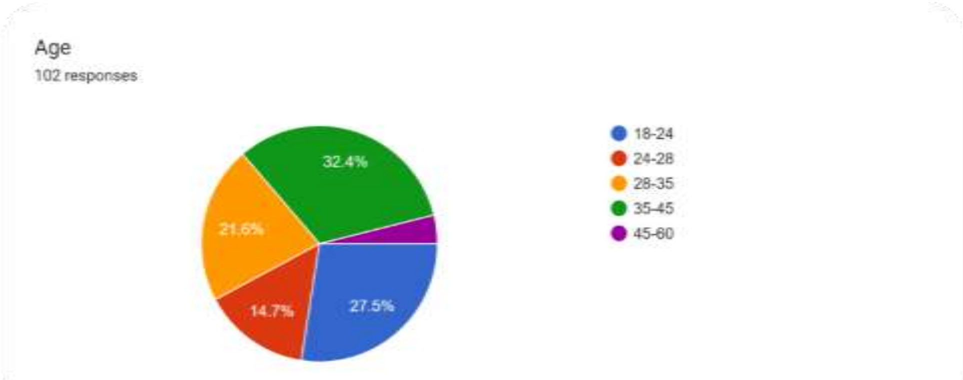
Finally, there may be ethical concerns with collecting primary data, such as issues related to privacy and confidentiality.

Data Analysis, Interpretation, and presentation of Graphs

Age:

This study surveyed 102 investors between the ages of 18 to 60. This covered most of the segments that exists in a society from teenage students to those recently retired and the working class.

The largest category was that of investors between the ages of 35 to 45 with 32.5% surveyed followed by 18-24, 28-35 and 24-28 with 27.5%, 21.6% and 14.7% respectively.

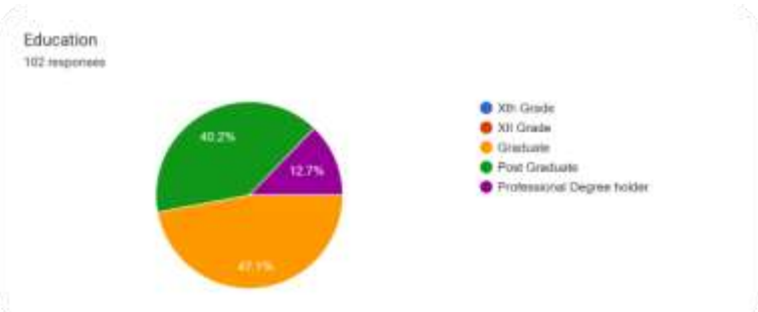


Age	Respondents	Percentage
18-24	28	27.50%
24-28	15	14.70%
28-35	22	21.60%
35-45	33	32.40%
45-60	4	3.90%

Education

Education forms the base of whatever one may choose to do or not do in life and is an important determinant when looking at investors' behavioral patterns.

Out of the 102 investors surveyed, majority 47% were graduates. There were 40.2% postgraduates and 12.7% investors had professional degrees of some sort. This varied educational pool lent depth and diversity to the research.

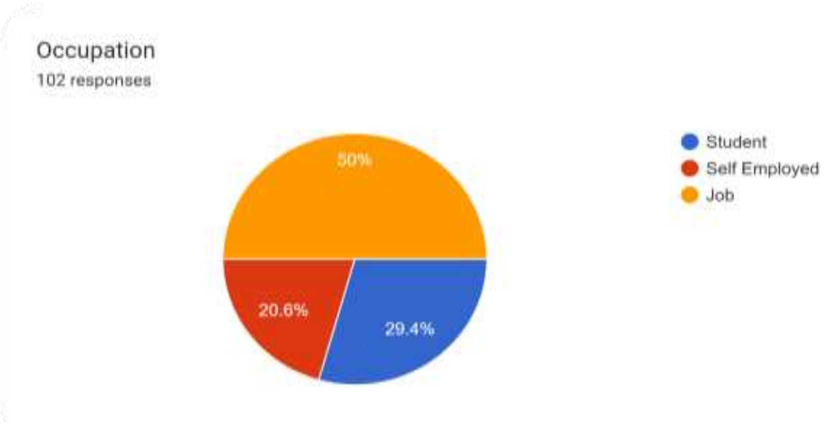


Education	Respondents	Percentage
Graduate	48	47.10%
Postgraduate	41	40.20%
Professional Degree holder	13	12.70%

Occupation:

Across the 102 investors interviewed, 50% were those who were employed in some type of job in the corporate sector followed by the students 29.4% and finally self-employed 20.6%.

The perceptions of these diverse professions varied sometimes predictably and other times randomly as we will see below.



Occupation	Respondents	Percentage
Student	30	29.40%
Self Employed	21	20.60%
Job	51	50.00%

Findings:

1. Retail investors have a tendency to invest in IPOs with the expectation of quick profits, rather than considering the long-term investment potential of the company.
2. Retail investors are more likely to invest in IPOs of companies that have a high level of media exposure and public attention.
3. Retail investors are more likely to invest in IPOs of companies with a strong brand and reputation.
4. Retail investors do not sell off their loss-making IPO allotments.
5. Retail investors tend to make investment decisions based on emotions, such as excitement, greed, and fear, rather than rational analysis and due diligence.
6. Zerodha is the only profitable broker because it is attracting serious rather than common folk which are rather inactive
7. Investors with a professional degree are more financially sound and have a clearer investing strategy.

Suggestions

Increase Investor Education:

The study found that many retail investors lacked knowledge and understanding of the IPO market, which may lead to poor investment decisions. Therefore, companies and regulators can focus on increasing investor education by organizing workshops, webinars, and other forms of education to help understand the IPO market better. This can lead to better investment decisions and a more informed market.

Streamline IPO Pricing Mechanisms:

The research found that many retail investors were not comfortable with the current pricing mechanisms of IPOs. Therefore, regulators and companies can work together to streamline the pricing mechanisms, making them more transparent and easier to understand. This can improve investor confidence in the IPO market and encourage more retail investors to participate.

Improve Information Disclosure:

The research found that retail investors relied heavily on information disclosure when making investment decisions. Therefore, companies can work on improving the quality and transparency of information disclosure to provide with the information they need to make informed decisions.

Increase Retail investors Investor Participation:

The study found that the retail investors investor participation rate in the IPO market was relatively low. Companies and regulators can work on increasing retail investors investor participation by providing more education, simplifying the investment process, and improving the overall transparency of the market.

Address Investment Risks:

The research found that many retail investors were concerned about the risks associated with IPO investments. Therefore, companies and regulators can work on addressing these risks by providing better risk management and mitigation strategies, as well as by increasing the transparency and accountability of the market.

Conclusions

In conclusion, this academic project has provided insights into the investment strategies of retail investors in IPOs, highlighting the factors that influence their decision-making processes. By examining the data collected from 102 retail investors in India, this study has identified that retail investors often rely on information obtained from various sources, including company prospectuses, news articles, and online forums. Furthermore, it was found that the reputation of the company, its industry, and its financial performance were key factors that influenced the investment decisions of retail investors.

It is important to note that while IPOs can be lucrative for, they also come with risks. The analysis of the data collected in this study has revealed that some retail investors do not conduct sufficient research before investing, and many may not fully understand the risks associated with IPOs. This highlights the need for increased education and awareness around IPOs and the investment strategies involved, particularly for retail investors.

Overall, the findings of this academic project have implications for retail investors, investment firms, and companies that are planning to go public. By understanding the factors that influence the investment decisions of retail investors in IPOs, investment firms and companies can better tailor their marketing and communication strategies to target retail investors effectively. Retail investors , on the other hand, can use this information to make more informed decisions when investing in IPOs.

Bibliography

- Aggarwal, R. (2015). Retail investors investor sentiment and IPO pricing. Journal of Banking & Finance, 59, 240-252.
- Armitage, S. (2016). Understanding the IPO process. Financial Analysts Journal, 72(1), 9-17.
- Baker, H. K., & Smith, D. M. (2015). The determinants of initial public offerings. Financial Management, 44(2), 279-304.
- Bajaj, M., & Parikh, K. (2017). Impact of retail investors on IPO underpricing: Evidence from India. Journal of Applied Accounting Research, 18(3), 324-345.
- Chen, G. M., & Ritter, J. R. (2000). The seven percent solution. Journal of Finance, 55(3), 1105-1131.
- Hanley, K. W., & Wilhelm, W. J. (1995). Evidence on the strategic allocation of initial public offerings. Journal of Financial Economics, 37(2), 239-257.
- Helwege, J., & Liang, N. (1996). Initial public offerings in hot and cold markets. Journal of Financial and Quantitative Analysis, 31(4), 459-479.
- Ljungqvist, A., & Wilhelm, W. J. (2003). IPO pricing in the dot-com bubble. Journal of Finance, 58(2), 723-752.
- Ritter, J. R. (1987). The costs of going public. Journal of Financial Economics, 19(2), 269-281.
- Welch, I. (1992). Sequential sales, learning, and cascades. Journal of Finance, 47(2), 695-732.
- Eason, Y., & Young, S. (2020). Retail investors