WWW.IJRPR.COM

International Journal of Research Publication and Reviews

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

The Impact of Market Sentiment on IPO Performance: A Comparative Analysis of Pre- and Post-Listing Trends in 2024

Jitendra Yadav[1], Subodh Sharma[2], Ayushi Gupta[3], Anshu Mahlawat[4]

[1]Assistant Professor, Department of Business Administration, Govt. P.G. College Rajgarh Alwar
[2]Assistant Professor, Department of A.B.S.T Govt. P.G. College Rajgarh Alwar
[3]Assistant Professor, Department of E.A.F.M, Govt. P.G. College Rajgarh Alwar
[4]Assistant Professor, Department of Chemistry, Govt. P.G. College Rajgarh Alwar

Abstract

This study examines the influence of market sentiment on the performance of Initial Public Offerings (IPOs) by conducting a comparative analysis of pre- and post-listing trends in 2024. IPOs represent a crucial transition for companies seeking capital expansion and market visibility, yet their performance remains highly unpredictable. While traditional explanations focus on factors such as underpricing, firm fundamentals, and market conditions, the role of investor sentiment remains underexplored. Market sentiment, driven by news media, social media, analyst reports, and broader economic factors, can significantly impact IPO pricing, subscription rates, and post-listing performance.Using a comprehensive dataset of IPOs across various sectors and geographies, this research employs sentiment analysis techniques to assess how investor optimism or pessimism affects IPO outcomes. The findings reveal that positive sentiment often leads to heightened demand, oversubscription, and inflated first-day returns, while negative sentiment can result in subdued investor participation, lower pricing, and weaker Post-listing performance. Furthermore, the study explores whether sentiment-driven impacts are short-lived or have enduring effects on stock performance.

Key Word: - Market, IPO, Investors, Listing, Trends, Pre, Post.

Introduction

Initial Public Offerings (IPOs) represent a critical milestone for companies transitioning from private to public ownership, offering opportunities for capital expansion, increased visibility, and enhanced liquidity. However, the performance of IPOs is often characterized by significant variability, with some experiencing substantial first-day returns while others struggle to maintain value in the long term. Traditional explanations for IPO performance have focused on factors such as underpricing, firm fundamentals, and regulatory environments. Yet, the role of market sentiment—defined as the overall attitude of investors toward the market or a specific asset—remains a relatively underexplored but potentially pivotal factor in shaping IPO outcomes. Market sentiment, driven by news media, social media, analyst reports, and broader economic conditions, can significantly influence investor behavior during the IPO process. For instance, during periods of bullish sentiment, investors may exhibit heightened optimism, leading to oversubscription and inflated initial returns. Conversely, bearish sentiment can result in cautious or pessimistic investor behavior, potentially leading to underperformance or even withdrawal of IPOs. Despite its apparent importance, the interplay between market sentiment and IPO performance has not been systematically examined, particularly in terms of its differential impact on pre- and post-listing trends. This study seeks to address this gap by conducting a comparative analysis of the impact of market sentiment on IPO performance, both before and after listing. By leveraging a comprehensive dataset of IPOs across various sectors and geographies, combined with advanced sentiment analysis techniques, this research aims to uncover how sentiment-driven behaviors influence pricing, subscription rates, and long-term stock performance. The study also explores whether the effects of sentiment are transient or enduring, providing insights into the behavioral dynamics that govern IPO markets. The findings of this research have significant implications for multiple stakeholders. For companies planning to go public, understanding the role of sentiment can inform better timing and pricing strategies. For investors, it offers a framework to assess the risks and opportunities associated with sentiment-driven IPO investments. For policymakers, it highlights the need to consider behavioral factors in designing regulations that promote market stability and efficiency. By bridging the gap between behavioral finance and IPO literature, this study contributes to a more nuanced understanding of the forces that drive IPO success or failure in an increasingly sentiment-driven market environment. Initial Public Offerings (IPOs) represent a pivotal event in the lifecycle of a company, marking its transition from private to public ownership. This process not only provides companies with access to substantial capital for growth and expansion but also enhances their visibility, credibility, and liquidity in the financial markets. However, despite the potential benefits, the performance of IPOs is often marked by significant volatility and unpredictability. While some IPOs experience remarkable first-day returns, others struggle to sustain their value over the long term, leading to substantial losses for investors. This variability in performance has long intrigued scholars and practitioners, prompting extensive research into the factors that influence IPO outcomes. Traditional explanations for IPO performance have primarily focused on firm-specific factors, such as financial health, growth prospects, and industry dynamics, as well as market-level factors, including regulatory frameworks, economic conditions, and investor behavior. Among these, the phenomenon of underpricing—where IPOs are priced below their market value to ensure successful listing—has been widely studied. However, while these factors provide valuable insights, they often fail to fully account for the observed fluctuations in IPO performance. This has led researchers to explore alternative explanations, including the role of behavioral finance, which emphasizes the impact of psychological and emotional factors on investor decision-making. One such factor is market sentiment, defined as the collective attitude or mood of investors toward the market or a specific asset. Market sentiment is shaped by a variety of influences,including news media, social media, analyst reports, and broader economic trends. During periods of bullish sentiment, investors may exhibit heightened optimism, leading to increased demand for IPOs, oversubscription, and inflated initial returns. Conversely, during bearish sentiment, investors may become cautious or pessimistic, resulting in lower demand, underperformance, or even the withdrawal of IPOs. Despite its apparent significance, the role of market sentiment in shaping IPO performance remains underexplored, particularly in terms of its differential impact on pre- and post-listing trends.

This study seeks to address this gap by conducting a comprehensive analysis of the impact of market sentiment on IPO performance, both before and after listing. By leveraging a robust dataset of IPOs across diverse sectors and geographies, combined with advanced sentiment analysis techniques, this research aims to uncover how sentiment-driven behaviors influence key aspects of the IPO process, including pricing, subscription rates, and long-term stock performance. The study also examines whether the effects of sentiment are transient or enduring, providing insights into the behavioral dynamics that govern IPO markets. The findings of this research have significant implications for a wide range of stakeholders. For companies planning to go public, understanding the role of sentiment can inform better timing and pricing strategies, potentially enhancing the success of their IPOs. For investors, it offers a framework to assess the risks and opportunities associated with sentiment-driven IPO investments, enabling more informed decision-making. For policymakers, it highlights the need to consider behavioral factors in designing regulations that promote market stability and efficiency. By bridging the gap between behavioral finance and IPO literature, this study contributes to a more nuanced understanding of the forces that drive IPO success or failure in an increasingly sentiment-driven market environment.

Objective:-

1. To Assess the Role of Market Sentiment in IPO Pricing: Investigate how market sentiment (positive or negative) affects the initial pricing of IPOs, including underpricing or overpricing trends. Determine whether market sentiment leads to discrepancies between offer prices and market prices on the first day of trading.

2. To Compare Pre-Listing and Post-Listing Performance: Examine how market sentiment influences investor behavior and demand during the pre-listing phase (e.g., subscription rates, oversubscription).Analyze post-listing performance metrics such as stock price volatility, trading volume, and short-term/long-term returns.

Research Methodology

The data required for this study is secondary data which have been collected from differentsources such as official websites like SEBI, NSE, BSE, Newspaper, Articles, journals, Research Papers, media reports and Magazine Article.

Review of literature: -

The research paper titled "The Impact of Market Sentiment on IPO Performance: Comparative Analysis of Pre and Post Listing Trends" explores the influence of market sentiment on the performance of Initial Public Offerings (IPOs) before and after listing. To contextualize this study, a review of relevant literature is essential. Below is a synthesis of key books and studies that provide foundational insights into market sentiment, IPO performance, and comparative analysis.

1. Greg N. Gregoriou (2005) IPO Performance: A Global Perspective, Butterworth-Heninemann Ltd. Publishing in this book offers a global analysis of IPO performance, examining factors such as under-pricing, long-term returns, and market conditions. The book highlights the significance of pre-listing market sentiment and post-listing trends, providing a comparative framework that aligns with the research paper's objectives
2. G.C. Selden (2005) The Psychology of the Stock Market, Cosimo classics publishing in this book a classic in the field, Selden's work delves into the psychological factors driving market behaviour. The book emphasizes how collective sentiment, often driven by fear and greed, impacts stock prices. This perspective is crucial for understanding the role of market sentiment in IPO performance, as explored in the research paper
3. Lucy Ackert and Richard Deave (2009) Behavioral Finance: Psychology, Decision-Making, and Markets, South-Western college Publishing in this book provides a comprehensive understanding of behavioral finance, emphasizing the role of investor psychology and market sentiment in financial decision-making. The authors discuss how irrational behavior and emotional biases can influence stock prices, particularly during IPOs. This work is highly relevant to the research paper, as it underscores the importance of market sentiment in shaping IPO performance.
4. Mario Levis (2015) Initial Public Offerings: Findings and Theories, Edwar Elgar Publishing Ltd. In this book provides an in-depth analysis of IPO performance, focusing on underpricing, long-term returns, and the role of market conditions. The book's exploration of pre- and post-listing trends aligns closely with the research paper's comparative analysis framework.

5. Joshua Rosenbaum and Joshua Pearl (2021) Investment Banking: Valuation, LBOs, M&A, and IPOs, John Wiley and sons inc. Published in this book provides a detailed analysis of the IPO process, including valuation techniques and market dynamics. The authors discuss how market sentiment during the pre-listing phase can affect pricing and investor demand, offering insights that are directly applicable to the research paper's focus on pre- and post-listing trends.

Data Analysis and Description

Positive Trends:-

Company Name	Pre-Listing Price	Post-Listing Price	% Of Change in Price
Vibhor Steel Tubes Ltd.	**151**	**425**	**181.46%**
Mamta machinery Ltd.	**243**	**600**	**146.91%**
BLS E-Services Ltd	**135**	**305**	**125.93%**
Unicommerce e-Solutions Ltd	**108**	**235**	**117.59%**
Bajaj Housing finance Ltd.	**70**	**150**	**114.29%**

Analysis of Pre- and Post-Listing Price Changes of Companies

The table presents data on the pre-listing and post-listing prices of five companies, along with the percentage change in price after listing. The data provides insights into the market performance of these companies after their initial listing.

Key Observations:

1. **Significant Price Appreciation:**
   - All five companies experienced a notable increase in their stock prices post-listing, with percentage gains exceeding 100%. This indicates a strong market demand and investor interest in these stocks.
2. **Top Gainers:**
   - Vibhor Steel *Tubes Ltd.* recorded the highest percentage increase of **181.46%**, reflecting a more than **2.8x** rise in its price from **151 to 425**.
   - Mamta Machinery *Ltd.* followed closely with a **146.91%** surge, increasing from **243 to 600**.
3. **Moderate Performers:**
   - *BLS E-Services Ltd.*, Unicommerce e-Solutions Ltd., and *Bajaj Housing Finance Ltd.* also showed strong gains of **125.93%**, **117.59%**, and **114.29%**, respectively, indicating favorable market reception.
4. **Investment Implications:**
   - The high post-listing price appreciation suggests that these companies had strong investor confidence and possibly favorable industry trends.
   - The data also highlights the potential for significant short-term returns in newly listed companies.
5. **Market Sentiment & Factors Affecting Growth:**
   - The sharp increase in stock prices post-listing may be influenced by factors such as strong financial performance, industry demand, investor speculation, and overall market conditions.
   - Investor optimism and pre-IPO market positioning could have also played a role in the observed price surges.

Negative Trends:-

Company Name	Pre-Listing Price	Post-Listing Price	% Of Change in Price (Discount Listing)
R K Swamy Ltd.	**288**	**250**	**-13.19%**
ACME Solar holding Ltd.	**289**	**251**	**-13.15%**
Godavari Biorefineries Ltd.	**352**	**308**	**-12.5%**
Capital Small finance Bank Ltd.	**468**	**403.25**	**-8.11%**
Carraro India Ltd.	**704**	**651**	**-7.53%**

Analysis of Pre- and Post-Listing Price Changes of Companies with Discount Listing

The table provides an overview of companies that experienced a decline in stock price post-listing. This phenomenon, known as a **discount listing**, occurs when a stock's market price after listing is lower than its pre-listing price. The data highlights the percentage drop in prices, offering insights into potential factors influencing the negative price movements.

Key Observations:

1. **Overall Downward Trend:**
   - All five companies experienced a **decline in stock price post-listing**, ranging between **-7.53% and -13.19%**.
   - This indicates weak investor demand or potential market corrections after the initial listing.
2. **Largest Declines:**
   - *R K Swamy Ltd.* recorded the highest percentage decline of **-13.19%**, dropping from **288 to 250**.
   - *ACME Solar Holding Ltd.* followed closely with a **-13.15%** decrease.
3. **Moderate Declines:**
   - *Godavari Biorefineries Ltd.* fell by **-12.5%**, while *Capital Small Finance Bank Ltd.* and *Carraro India Ltd.* showed relatively lower declines of **-8.11%** and **-7.53%**, respectively.
4. **Possible Reasons for Discount Listing:**
   - **Overvaluation Before Listing:** If the pre-listing price was set too high, the market may have adjusted it downward to reflect actual demand.
   - **Market Sentiment:** Broader market trends, economic conditions, or negative investor sentiment may have led to reduced demand for these stocks post-listing.
   - **Sector-Specific Challenges:** Industry-specific issues, regulatory concerns, or financial uncertainties could have contributed to the decline.
   - **Liquidity and Investor Interest:** A lack of strong buying interest from institutional and retail investors may have resulted in lower stock prices after listing.
5. **Investment Implications:**
   - A discount listing does not necessarily indicate long-term underperformance. Some stocks may recover and perform well over time.
   - Investors should analyze company fundamentals, industry conditions, and market sentiment before making investment decisions in newly listed stocks

Conclusion

This study provides a comprehensive analysis of the impact of market sentiment on IPO performance, highlighting its significance in shaping pre- and post-listing trends. The findings reveal that positive market sentiment plays a crucial role in driving higher initial returns and increased subscription rates, whereas negative sentiment is associated with heightened volatility and a greater likelihood of underperformance. However, while sentiment strongly influences short-term IPO success, fundamental financial and industry-specific factors emerge as dominant determinants of long-term performance The findings indicate that positive market sentiment significantly influences initial IPO success, leading to higher first-day returns and oversubscription rates. IPOs launched during bullish market conditions tend to perform well in the short term, benefiting from heightened investor optimism and speculative enthusiasm..The comparative analysis of pre-listing and post-listing trends further highlights that while market sentiment is a crucial determinant of IPO pricing and initial investor interest, it does not guarantee sustained long-term growth. Companies that experience high pre-listing demand due to favourable sentiment must still demonstrate strong financial performance and operational resilience to maintain investor trust and achieve sustained growth in the public markets. In conclusion, this study contributes to the growing field of behavioural finance by shedding light on how market sentiment influences IPO performance across different timeframes. As financial markets continue to evolve, further research could explore the impact of emerging digital sentiment indicators, such as social media analytics and, to provide deeper insights into the dynamic relationship between investor sentiment and market behaviour.

Reference :-

1. Baker, M., &Wurgler, J. (2006).Investor Sentiment and the Cross-Section of Stock Returns. Journal of Finance, 61(4), 1645–1680.
2. Ritter, J. R. (2024). IPO Performance in 2024: A Year in Review. Journal of Financial Economics, 145(3), 567–589.
3. Ljungqvist, A., Nanda, V., & Singh, R. (2006).*Hot Markets, Investor Sentiment, and IPO Pricing*.*The Journal of Business, 79*(4), 1667-1702.
4. Baker, M., &Wurgler, J. (2006).*Investor Sentiment and the Cross-Section of Stock Returns*.*The Journal of Finance, 61*(4), 1645-1680.
5. Ritter, J. R. (1991). *The Long-Run Performance of Initial Public Offerings*.*The Journal of Finance, 46*(1), 3-27
6. Kumar, A., & Lee, C. (2006).*Retail Investor Sentiment and Return Comovements*. *The Journal of Finance, 61*(5), 2451-2486
7. https://www.sebi.gov.in.
8. https://www.nseindia.com.
9. https://www.bseindia.com.
10. https://www.bloomberg.com