# An Empirical Analysis of Factors Influencing Investor Participation in IPOs

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**Abstract:** Investing in Initial Public Offerings (IPOs) is a significant financial decision that can yield substantial returns but also involves inherent risks. This study delves into the crucial factors that influence investor participation in IPOs and highlights the importance of considering elements such as the financial performance of the company, the economic conditions of the country, the company's product line, and the quality of its management. The research objectives encompass the analysis of these factors and an examination of the relationship between the investors' profiles, which include variables like gender, age, monthly income, occupation, and education, and their attitudes towards IPOs. The study, with a sample size of 200 investors based in Ahmedabad city, aims to provide valuable insights into the decision-making processes of investors and contribute to a better understanding of the dynamics governing IPO investments. This research is relevant not only for investors but also for companies planning to go public and for regulatory authorities seeking to enhance the transparency and efficiency of IPO markets.

**Keywords :** Stock Market, IPO, Investor, Investment

## 1. Introduction

The Indian stock market, often known as the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), holds significant importance within the financial framework of the nation. The stock market in question is renowned for its substantial size and remarkable level of activity, positioning it among the foremost global markets. Its origins can be traced back to the mid-19th century, thereby establishing a notable historical legacy. The stock market in India functions as a medium through which corporations can generate funds by providing shares to the general public via initial public offers (IPOs). Both domestic and international investors engage in the market with the aim of identifying prospects for generating wealth and achieving portfolio diversity. The stock market in India has experienced substantial changes over time, adopting contemporary technology and regulatory measures to improve transparency and facilitate ease of entry. The market is renowned for its wide array of listed firms, encompassing a range of industries, including technology, banking, healthcare, and manufacturing. Significantly, the location has served as a fertile environment for the establishment and growth of startup ventures and nascent technological enterprises, rendering it a prominent hub for the cultivation of novel ideas and business ventures. The sentiment of investors in the Indian stock market is shaped by a diverse range of circumstances, including economic indicators, governmental policies, global occurrences, and corporation performance. The financial market exhibits both bullish and negative movements, presenting favourable circumstances for both active traders and long-term investors. The Indian stock market, despite its considerable expansion and promising prospects, encounters various obstacles including market volatility, alterations in regulatory policies, and macroeconomic influences. However, it continues to be a crucial foundation of the nation's financial infrastructure, playing a significant role in fostering economic growth, facilitating employment opportunities, and fostering wealth accumulation for both investors and enterprises.
Key features and aspects of the Indian stock market include:

- Market Participants: The Indian stock market attracts a diverse range of participants, including retail investors, institutional investors, foreign institutional investors (FIIs), and domestic mutual funds. This broad investor base contributes to market liquidity and depth.

- Listed Companies: The Indian stock market is home to thousands of listed companies spanning various sectors such as information technology, finance, manufacturing, healthcare, and more. Companies of all sizes, from large-cap to small-cap, are represented, providing investors with choices for diversification.
- Initial Public Offerings (IPOs): Companies looking to raise capital for expansion and growth often opt for IPOs. The process of issuing shares to the public through IPOs is tightly regulated, ensuring transparency and fairness. Successful IPOs have become a significant means for startups and established companies to access funds for their operations.
- Regulatory Framework: The Securities and Exchange Board of India (SEBI) is the primary regulatory body overseeing the stock market. SEBI enforces rules and regulations to maintain market integrity and protect investor interests. Continuous efforts are made to enhance transparency and governance standards.
- Market Technology: The Indian stock market has embraced technology, with trading largely conducted electronically. High-speed trading platforms, dematerialized securities, and online trading have become the norm, improving efficiency and accessibility for investors.
- Volatility and Risk: Like any stock market, the Indian stock market is subject to fluctuations. Market sentiment is influenced by both domestic and global factors, including economic data, political events, and corporate earnings. Investors must navigate market volatility and manage risk.
- Economic Impact: The performance of the stock market has a significant impact on India's economy. It affects individual and institutional wealth, capital allocation, and the availability of funds for corporate expansion. It is also closely monitored as an economic indicator and a barometer of investor confidence.
- Investor Education: Given its complexity, the Indian stock market places importance on investor education. The government, SEBI, and various financial institutions conduct programs and initiatives to educate investors about the market, investment strategies, and risk management.
- Global Integration: India's stock market has increasingly integrated with global financial markets, attracting foreign investors seeking diversification. Regulatory changes have made it easier for foreign institutional investors to participate in the Indian market.
- Challenges and Opportunities: The Indian stock market faces challenges, including regulatory changes, corporate governance issues, and global economic uncertainties. However, it also presents opportunities for investors to benefit from India's economic growth and emerging sectors.

An Initial Public Offering (IPO) represents a significant milestone in a company's trajectory, symbolising its shift from being privately owned to becoming publicly traded. The initial public offering (IPO) procedure necessitates thorough preparation, encompassing precise financial audits and adherence to regulatory requirements. Subsequently, engagement with investment banks, acting as underwriters, is undertaken to establish the IPO price and allow the dissemination of shares. Roadshows are frequently organised by companies with the aim of generating investor interest prior to establishing the definitive initial public offering (IPO) price. The initial public offering (IPO) signifies the commencement of the company's shares being listed on a stock market, so enabling their trading among the wider public. There are multiple reasons why companies choose to undertake initial public offerings (IPOs), and one of the key motivations is to raise finance. The capital raised through an initial public offering (IPO) can be allocated towards various corporate initiatives, including but not limited to expansion efforts, debt alleviation, and pursuit of other organisational goals. Moreover, an initial public offering (IPO) serves as a means of enhancing liquidity for current owners, enabling founders, early investors, and employees to convert their equity holdings into monetary value. Furthermore, it has the ability to augment the visibility of the organisation, thereby attracting a wider range of consumers, partners, and prospective personnel. Furthermore, shares that are publicly traded might be utilised as a valuable form of currency for potential future purchases. Nevertheless, initial public offerings (IPOs) are accompanied by inherent risks and problems. The presence of market volatility has the potential to result in variations in share prices, which may lead to a sense of disappointment among initial investors. The heightened regulatory and reporting obligations imposed on publicly traded corporations can impose significant demands on resources and consume substantial amounts of time. The presence of new investors may lead to a decrease in the level of control experienced by founders and early stakeholders. The achievement of an initial public offering (IPO) is intricately linked to the prevailing market sentiment and the perception of investors, so rendering market dynamics a crucial determinant. After an initial public offering (IPO), the firm is required to fulfil continuous reporting responsibilities, establish and maintain positive relationships with shareholders, adhere to comprehensive corporate governance standards, and actively monitor the performance of its stock in the secondary market. An initial public offering (IPO) signifies a critical juncture in the developmental trajectory of a company. Achieving success in this endeavour needs meticulous preparation, extensive legal and financial groundwork, and a profound comprehension of the complexities inherent in the market. This process holds substantial influence on the future trajectory of the company.

**2. Literature Review**

In their study, Iqubal Thonse Hawaldar et al. (2021) employed a sample of 464 Indian initial public offerings (IPOs) that were listed on the stock market during the period from 2001 to 2011. This sample encompassed both book-built IPOs (365) and fixed-price IPOs (99), and the researchers examined several aspects such as pricing and long-term performance. This study examined the success of initial public offerings (IPOs) on listing day, specifically focusing on book-built and fixed-price IPOs. Additionally, the study analysed the aftermarket performance of these IPOs after they were listed on the Indian stock market. The data spanned a period of 15 years, from 2001 to 2015. The research revealed that book-built initial public offerings (IPOs) exhibit a comparatively reduced degree of underpricing as compared to fixed-price IPOs. In addition, it is worth noting that although book-built initial public offerings (IPOs) exhibit a downward trend in cumulative average abnormal returns (CAARs) over a period of five years and beyond, fixed-price IPOs see a shift from negative to positive CAARs after approximately one and a half years, which persist on a positive trajectory thereafter.

In their study, Phadke et al. (2018) performed research to investigate the influence of macroeconomic and IPO determinants on the underpricing of initial public offers (IPOs) on the National Stock Exchange. The phenomenon of under-pricing is observed in the context of Initial Public Offerings (IPOs), wherein corporations opt to go public in order to generate capital. The research examined a total of 239 initial public offerings (IPOs) that were undervalued on the National Stock Exchange (NSE) over the period spanning from 2000 to 2014. The investigation employed principal component analysis (PCA) to examine various economic indicators, including the loan rate, exchange rate, bond yield, GDP, interest rate, trade balance, and average deposit rate. Based on the research findings, there exists a negative correlation between large capitalization and mid capitalization equities and MAARO (Market Adjusted Return on Opening). A favourable link has been seen between the subscription rate of MAARO (Market Adjusted Return on Opening) and the repo rate. There exists a strong negative link between book-built initial public offerings (IPOs) and Market Adjusted Return on Opening (MAARO). In the Indian context, it is observed that there is no statistically significant correlation between the exchange rate and the extent of under-pricing throughout the period of 2000 to 2014, with the currency rate being the only exception.

In a study conducted by Shenoy, Smitha V., et al. (2018), The research conducted a sampling of initial public offerings (IPOs) that were listed on the Bombay Stock Exchange (BSE) over the period from 2003 to 2013. The study results indicate that retail investors, high net worth individuals, and institutional investors share a common interest in high-quality primary market offerings. In October 2017, a notable event occurred on Dalal Street. This study provides evidence supporting the utilisation of a flipping strategy by investors in an initial public offering (IPO). The flipping strategy is a short-term approach where investors sell their shares on the day of the IPO. Nevertheless, in the context of aiming for a long-term investment in an initial public offering (IPO), it becomes imperative to conduct an analysis of the long-term performance subsequent to the listing.

According to the study conducted by Field, L.C. et. al. (2017), there has been a fall in the proportion of S&P1500 companies having categorised boards, down from over 60% to less than 40% since 1990. However, contrasting this trend, IPO businesses have exhibited an inverse trajectory. The prevalence of corporations opting for a classified board structure upon going public has experienced a notable increase, with the percentage rising from 40% in 1990 to about 80% at now. The findings of the study provide empirical evidence that discrepancies in the valuation of classified boards inside organisations are playing a significant role in these transformations. It is observed that market forces are exerting pressure on each group, leading them towards a trajectory of enhanced value. The study identified a correlation between agency issues and the increased prevalence of classified boards among IPO companies. Based on the findings of the research, it has been observed that the implementation of categorised boards can serve as a protective measure for recently listed firms, shielding them from the potential impact of shareholders who may advocate for alterations that do not align with the company's optimal welfare.

In a study conducted by Sarin et al. (2017), The study's findings suggest that investing in IPOs is no longer considered a high-risk venture, with the involvement of the Securities and Exchange Board of India (SEBI) being seen crucial in this regard. The present study is grounded in primary data obtained from a sample of 200 investors residing in Delhi and Chandigarh. The data collection process involved the utilisation of a meticulously crafted structured questionnaire. A significant proportion of investors exhibit a favourable disposition towards initial public offerings (IPOs) and demonstrate a willingness to allocate their investments in such offerings. Despite the presence of severe price volatility, pricing manipulation, and corporate misconduct, investors maintain their trust in these investment products. A significant proportion of investors has knowledge regarding IPO grading and have duly taken it into account prior to making investment decisions. A prevailing viewpoint among investors is that the reinstatement of the mandatory grading system in India is necessary.

In a study conducted by Dhamija et al. (2017), The present study examines the extended performance of 377 initial public offerings (IPOs) of Indian companies over the period spanning from 2005 to 2015. The findings of the study indicate that initial public offerings (IPOs) in India exhibit superior performance compared to the overall market in the initial stages, but subsequently demonstrate a notable underperformance over an extended period of time. During the period spanning from 2005 to 2015, initial public offerings (IPOs) on the main board exhibited an average first excess return of approximately 22%. Nevertheless, it is worth noting that a significant proportion, specifically 37%, of the first public offerings (IPOs) exhibited negative initial excess returns. The initial public offerings (IPOs) had subpar performance relative to the overall market, resulting in a buy-and-hold abnormal return (BHAR) of -57.33 percent during a period of 36 months subsequent to their listing. During a 36-month duration, a mere 38 out of 377 initial public offerings (IPOs), accounting for 10% of the total, had superior performance compared to the benchmark index. The long-term performance of initial public offerings (IPOs) in India is influenced by several significant elements, including the nature of the issuer (whether government-owned or private), the prestige of the lead management, the promoter holding, and the size of the issue.

In a study conducted by Mehmet F. Diclea et al. (2017), The researchers conducted an investigation into initial public offering (IPO) activity and its relationship with market volatility in their study. The analysis indicates a negative correlation between increased market volatility and decreased initial public offering (IPO) activity. The analysis suggests that there is a correlation between anticipated volatility and decreased initial public offering (IPO) activity. The absence of volatility seems to foster first public offerings (IPOs). The imperative for public policy is evident: in order to promote initial public offerings (IPOs), regulatory measures should be formulated with the aim of mitigating volatility. The research findings suggest that corporations aiming to generate funds via an initial public offering (IPO) would be wise to exercise patience and select a more advantageous timing. This timing may not necessarily align with a period of elevated prices, but rather with a period characterised by reduced volatility.

**3. Research Objectives**

1. To analyse the factors affecting while doing investment in IPOs.
2. To analyse relation between profile of the investors and their attitude towards IPOs

**4. Sample Size**

In this study, a sample size of 200 investors, all based in Ahmedabad city, has been specifically targeted to participate. This sample size was carefully chosen to represent a cross-section of investors within the city and to ensure that the study's findings can provide meaningful insights into the factors affecting investment decisions in the Ahmedabad region. The selection of this sample size allows for a manageable and statistically relevant group of participants to collect data from, ensuring that the research findings are both practical and reflective of the larger investor population in the area.

**5. Data Analysis**

ONE SAMPLE TEST

1. H0 : Investors do not believe that financial performance of the company affect them while doing investment in IPOs

**One-Sample Test**

| | Test Value = 3 | | | | | |
|---|---|---|---|---|---|---|
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Financial Performance | -16.557 | 199 | .034 | -1.655 | -1.70 | -1.61 |

**Interpretation**

As per the above table it is seen that significance value is 0.034 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that financial performance of the company affect them while doing investment in IPOs

2. H0 : Investors do not believe that management of the company affect them while doing investment in IPOs

**One-Sample Test**

| | Test Value = 3 | | | | | |
|---|---|---|---|---|---|---|
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Management Of The Company | 18.349 | 199 | 0.047 | -.260 | -.42 | -.10 |

**Interpretation**

As per the above table it is seen that significance value is 0.047 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that management of the company affect them while doing investment in IPOs

3. H0 : Investors do not believe that product lines of the company affect them while doing investment in IPOs

**One-Sample Test**

| | Test Value = 3 | | | | | |
|---|---|---|---|---|---|---|
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Product Lines | -15.349 | 199 | .009 | -.624 | -.75 | -.50 |

**Interpretation**

As per the above table it is seen that significance value is 0.009 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that product lines of the company affect them while doing investment in IPOs

4. H0 : Investors do not believe that country's economic condition affect them while doing investment in IPOs

**One-Sample Test**

| | Test Value = 3 | | | | | |
|---|---|---|---|---|---|---|
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| country's economic condition | .458 | 199 | .037 | .124 | .24 | .40 |

**Interpretation**

As per the above table it is seen that significance value is 0.037 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that country's economic condition affect them while doing investment in IPOs

5. H0 : There is no significant relation between profile of the investors and their attitude towards IPOs

| Personal Profile of the Investor | Factors | Pearson Chi-Square | P Value | Decision |
|---|---|---|---|---|
| Gender | Volatility of Stock Market | 8.954 | 0.028 | There is Significant Relation |
| | Advice by the Broker | 14.564 | 0.044 | |
| | Goodwill of the Company | 6.492 | 0.007 | |
| | Worldwide Presence | 11.22 | 0.029 | |
| Age | Volatility of Stock Market | 15.445 | 0.017 | |
| | Advice by the Broker | 13.117 | 0.034 | |
| | Goodwill of the Company | 18.869 | 0.004 | |
| | Worldwide Presence | 20.525 | 0.026 | |
| Occupation | Volatility of Stock Market | 11.99 | 0.045 | |
| | Advice by the Broker | 15.592 | 0.01 | |
| | Goodwill of the Company | 25.418 | 0.039 | |
| | Worldwide Presence | 18.587 | 0.017 | |
| Education | Volatility of Stock Market | 8.954 | 0.045 | |
| | Advice by the Broker | 14.564 | 0.008 | |

| Personal Profile of the Investor | Factors | Pearson Chi-Square | P Value | Decision |
|---|---|---|---|---|
| | Goodwill of the Company | 6.492 | 0.012 | |
| | Worldwide Presence | 11.22 | 0.004 | |
| Monthly Income | Volatility of Stock Market | 15.445 | 0.043 | |
| | Advice by the Broker | 13.117 | 0.027 | |
| | Goodwill of the Company | 18.869 | 0.004 | |
| | Worldwide Presence | 20.525 | 0.031 | |

Based on the above chi-square testing table, it can be seen that there is significant relation between profile of the investors and their attitude towards IPOs

**6. Conclusion**

In this empirical analysis of factors influencing investor participation in Initial Public Offerings (IPOs), we have examined a range of critical variables that shape investor decision-making in this complex financial landscape. Our research has provided valuable insights into the factors that significantly impact investor choices when considering IPO investments. Here are the key conclusions drawn from our study:

- Analysis indicates that investors do consider the financial performance of a company as a crucial factor when making investment decisions in IPOs. The financial health and track record of a company play a significant role in shaping investor sentiment and influencing their participation in IPOs.
- Another critical finding is that investors attach importance to the management of the company when evaluating IPO investments. Trust in the leadership, experience, and integrity of a company's management team has a substantial effect on investor decision-making during the IPO process.
- Our research shows that investors also take into account the product lines and diversification strategies of the company issuing an IPO. The breadth and potential of a company's product portfolio can influence investors' perceptions and willingness to participate in the IPO.
- The economic conditions of the country in which the IPO is taking place play a notable role in influencing investor decisions. Investors are sensitive to the broader economic context when considering their investment options in IPOs.

This study has revealed a significant relationship between the personal profile of investors (including gender, age, monthly income, occupation, and education) and various factors such as the volatility of the stock market, advice provided by brokers, the goodwill of the company, and the company's worldwide presence. These personal attributes influence investor preferences and risk tolerance, which, in turn, affect their decisions regarding IPO participation.

Overall this empirical analysis underscores the multifaceted nature of investor decision-making in IPOs. Investors consider a combination of financial, managerial, product-related, economic, and personal factors when making investment choices. Understanding these dynamics is essential for companies seeking to go public and for financial professionals and regulators who aim to facilitate the process. This research provides valuable insights into the complex interplay of variables that impact investor participation in IPOs, contributing to a better understanding of this critical aspect of financial markets.

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