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Study of Investors' Behaviour Towards IPO and Analysis of Their Returns on the Day of Listing

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Abstract

A b s t r a c t

This study considers the behaviour of Retail Investors towards investment in the Indian Capital Market through Initial Public Offerings (IPO). It also analyses the returns on these investments on the date of Listing. The data for the last 3 calendar years from January 2021 to December 2023 were considered. Retail investors are more attracted to IPOs, as most of the time they get the chance to earn substantial gains during very short-term investments. Companies usually reserve a percentage of their issues for retail investors. During the study period, retail investors showed keen interest in the IPOs and most of the IPOs were oversubscribed. Interestingly, most IPOs also gave good returns to retail investors on the listing date. This oversubscription of retail investors and their gains assure that increasing participation of retail investors in the Indian Capital Market will help us to be the third largest economy very soon and dreams of Viksit Bharat by 2047 will become reality.

Keywords: *Capital Market, IPO, Retail Investors, IPO Subscription*

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1. Introduction

An initial public offering is the process by which a company raises capital from the public for the first time through an offering of shares. This process is done through various intermediaries in the Capital Market. After raising the capital, the shares are traded in the Capital Market which is usually known as Secondary Capital Market. The purpose of raising money varies from expansion, diversification, working capital finance, debt restructuring to reduction of promoters' share etc. IPOs include contributions from Retail Individual Investors (RII), Qualified Institutional Buyers (QIB), Non-Institutional Investors (NII), High Net Worth Investors (HNI), etc. Retail Individual Investors are the persons who subscribe for securities for an amount up to Rs. 200,000.

At the beginning of January 2020, the spread of the Coronavirus (COVID-19) in China not only caused massive human casualties but continued to have a negative impact on economies around the world (Fernandez-Perez et al., 2021). Every country in the world is responding differently to this pandemic. In the case of India, the lockdown prevailed for a longer period, which varied from place to place. Most of the economic activities were stopped due to the COVID-19 lockdown. Only emergency services like health services, groceries, dairy products, fruits and vegetables were running. The survival of lives was of utmost importance. At that time only one business activity was going on which was trading in Capital Markets. However, new issues were at a halt, but the secondary capital market was open. People sitting at home started taking interest in the Capital market activities. During that period there was a sharp increase in the number of demat accounts, which is essential to dealing in the Capital Market. This research aims to examine the responses of retail investors to IPOs in the Indian capital market after the COVID-19 era. All successful IPOs from January 2021 to December 2023 were considered as the research data set.

In India, Retail Investors have very small contributions to the Capital Markets. They always fear losing the money in Capital Market. But on the other hand, it is also a fact that IPOs lure a lot of retail investors. There are various reasons for that. Firstly, IPOs are usually available at lower prices in comparison with general stock market shares, so smaller investments are possible. Secondly, the investments are meant to be made for a very short period, hardly 10-20 days. The final and most significant reason is that most of the IPOs result in a gain on the day of listing. It means that retail investors have a chance to earn a good profit on smaller investments during a very short period.

The landscape of IPOs for retail investors underwent significant shifts following COVID-19. Online trading platforms became more popular as a result of the pandemic, making it easier for retail investors to access IPO shares. The democratization of Initial public offering access, combined with expanded retail revenue in the financial exchange, brought about a flood in retail support of Initial public offerings. While this extended admittance brought open doors, it likewise raised worries about the potential for retail investors to take part in speculative ways of behaving, stressing the significance of investor training and an expected level of effort in the post-Coronavirus Initial public offering scene.

2. Review of Literature

Chetan et al., (2023) -The goal of this study was to examine the variables affecting IPO subscriptions. It was discovered that the regulatory framework and market sentiment played crucial roles, with allocation proportions (QIB, NII, and Retail) having little effect. Size, price, and P/E ratio of the issue were not important motivators; nevertheless, lower issue prices were associated with higher Grey Market Premium, which attracted speculative investors outside variables. IPO Ratings, broker recommendations, and GMP, among others, became significant factors that provided insightful information for both academic study and real-world IPO market decision-making.

Li, Z., & Kara, A. (2022) - According to this paper, we first examine the relationship between investor sentiment captured by Internet search behaviour and unexpected volatility in stock markets during the COVID-19 pandemic. According to the data from 12 major stock markets' research shows a positive correlation between Google's COVID-19 search index and unexpected volatility in stock markets. The result suggests that increased investor sentiment related to COVID-19 during this pandemic is associated with greater uncertainty in stock markets. Our study further investigates whether country-level governance plays a role in protecting stock markets during a pandemic and shows that unexpected conditional volatility is lower when country governance is more effective.

Cevik, E., Kirci Altinkeski, B., Cevik, E. I., & Dibooglu, S. (2022) - This study examines the relationship between positive and negative investor sentiment and stock market returns. The results show that investors' communication of positive and negative emotions seems to be a good predictor of stock performance and volatility during the pandemic.

Dr. Sejal Christian, Chitraben Rajnikant Sheth, (2022) In the past, you could only invest in single companies, but today's technology allows consumers to test a variety of companies. An initial public offering (IPO) can be a great way for the average person to learn how to invest in the stock market. If you look at the market and the history of companies, there is no risk in investing.

Surana, S. (2021) This article compares IPOs in the Indian market in two main stages: pre and post-Coronavirus. The study considers a sample of 242 lists from the 11-year period 2010-2020. A comparison based on listing details, IPO profits etc. highlight a more active retail investment segment. Excessive optimism and the desire to synthesize short-term gains contribute to such gains. This is also supported by the analysis of search results for the Indian region using Google Trends. Setbacks like COVID-19 are changing the way Indian investors behave and invest in IPOs, shifting their investments to speculative measures like grey market premium rather than the real fundamentals of the issue under consideration.

Bhattacharjee and Das, (2020) examine the impact of the pandemic on the Indian capital market by looking at the trends of eight prominent indices, the behaviour of FIIs and DIIs, the development of the Indian primary market and thus the reactions of the regulators. According to these observations, there was a major sell-off on the industrial investment side in March 2020 and the entire market moved into bearish territory.

Wu et al., (2020) According to the author study the traces of herd behaviour in the Chinese stock market during the pandemic and find that it is significantly lower than normal during the Corona period. This means that Chinese investors are more sceptical and cautious about financial markets during the crisis. One must watch how Indian investors behave in situations like covid.

Ali et al., (2020) studied how global markets reacted during the epidemic (pre-COVID 19 in this article) and pandemic (covid-19 and post) phases and found that the Chinese market was relatively calmer and less depressed than the US and Great Britain, Germany and South Korea. During the thirty days of the pandemic, wealth worldwide declined by approximately 30 percent. The non-Chinese markets were characterized by panic buying and selling and consequently higher volatility. This article does not attempt to examine the Indian market in the same light. This narrows the focus to a specific area - the IPOs.

Boda & Sunitha (2018). The main purpose of this research is to study and understand the investment behaviour of an individual chronologically. This study considers the impact of psychological and emotional elements on market fluctuations, emphasizing the rationality of the investor, emphasizing the psychological impact of investing. Traditional finance sees investors as sensitive and typical when making investment decisions in the stock market; therefore, they are no longer involved in risk-compensation transactions and manipulation of numbers. An efficient market model requires that investors evaluate all available relevant information and make an investment decision in an impartial and unbiased manner. In contrast, psychologists advised people to behave irrationally, unlike economists.

Poornima (2016) argues that IPOs in India are primarily a speculative vehicle for Indian investors based on a study of nine companies between January 2013 and December 2014. This paper aims to reveal new findings through a parallel and larger sample study.

Jan, et al., (2022) Their research results showed that overconfidence, representational bias and anchoring bias have significant and positive effects on investment decisions, but availability. Bias has a significant but negative effect on the investment decision. In addition, the findings indicated that information availability plays an important moderating role in the psychological biases of the investment decision. This study provides additional insights into behavioural finance, psychological biases and investment decisions in emerging equity markets. The results of this study help to understand how the psychology of investors affects their investment decisions.

Goyal & Manu, (2021) The shutdown of COVID-19 also had an insignificant association with Indian IPO stock performance. In other words, the Indian IPO market was not surprisingly affected by the COVID-19 pandemic, because despite the Corona restrictions, the Indian stock market reached an all-time high as the pandemic encouraged the global central banks and national economies to pump various stimulus packages. (about 8 trillion) which later made their way to the Indian stock market through foreign institutional investors, resulting in the stock market breaking its resistance and hitting new highs. Our research provides investors and policymakers with valuable information and helps financial institutions combat the adverse effects of the COVID-19 pandemic on the primary and secondary capital markets.

Narayana & Ramya (2024); The study sheds light on investor beliefs and behaviour about initial public offerings (IPOs). It finds substantial correlations between demographic variables such as age and the sources of IPO-related information. However, while these demographic features may influence how investors obtain information, they have little impact on investment decisions. Furthermore, the study concludes that the characteristics analysed, such as company reputation, financial performance, market trends, and expert advice, do not reliably predict investor behaviour in IPOs. Despite this, respondents express a strong curiosity about growth potential and moderate satisfaction with post-investment contact. Finally, while the study sheds light on investor preferences and sources of information about IPOs, it implies that more research is needed to better understand the factors influencing investment decisions in this setting. Moreover, the steps to increase financial literacy and to improve communication channels, may contribute to a more informed and inclusive investing landscape in the IPO markets.

Arora et al., (2024) The study discovered that important considerations for selecting IPOs included goodwill, the company's history, its present financial situation, management profile, promoter's background, IPO grade, market participant disclosures, and the grey market premium. On the other hand, the promoter's stake, IPO price band, current position in the secondary market, and competitive position were not found to be significant factors. The study also found that fear of loss of money, lack of proper knowledge, and the fact that family does not allow are the reasons for not investing in the IPOs.

3. Objectives

1. To find out the responses of retail investors towards IPOs.
2. To assess the gain/loss on IPOs on the date of listing
3. To compare the oversubscription with the listing gain/loss.
4. To find out the retail investors' behaviour towards IPO.

4. Research Methodology

4.1. *Type of data*: - The present study is based on secondary data. The data has been taken from the websites of SEBI, Moneycontrol.com and Chittorgarh.com

4.2. *The Nature of data:* - The data related with the IPOs like the size of the Issue, Issue Price, Subscription by Retail Investors and listing day gain/ loss have been taken in the study.

4.3. *Period of data:* - The IPO data for the period of 3 calendar years are considered. It is taken from January 2021 to December 2023.

4.4. *Tools of Analysis:* - Percentage analysis has been done for showing the results. The graphical representation of analysis has been done at appropriate places. Cumulative figures have been taken at some places for the above-mentioned periods.

5. Result & Discussion

This Section is divided into the following parts: -

5.1. No. of Companies brought IPOs and Capital raised during 2021 -2023

5.2. Gain/loss at the time of Listing

5.3. Subscription of Retail Individual Investors

5.4. Analysis of various slabs of oversubscription of retail investors with the gain /loss occurred at the time of listing

5.1. No. of Companies brought IPOs and Capital raised during 2021-2023: -

Total number of companies which raised the capital through IPOs during 2021 -23 is mentioned in Table No. 1

Table 1 –

Total number of companies brought IPOs and capital raised

S. No.	Calendar Year	No. of companies	Capital raised (in Rs. Crores)
1	2021	62	118,751
2	2022	33	57,878
3	2023	41	38359
Total		**136**	**214,988**

Source: Data available on website

Finding:- In the year 2021, which was immediately post – COVID, the highest number of companies raised the highest amount of capital from the market in comparison to the years 2022 and 2023, which signifies that after COVID, there has been a boost in the number of investors into the market and also more companies entered into the market. However, all IPOs did not bring fresh capital into the market, as few companies raised capital to dilute promoters' equity (e.g. LIC, Tata Technology etc.). Investors also responded well and most of the Issues were oversubscribed.

5.2. Gain/loss at the time of Listing: -

Retail investors believe that an IPO gives a good return in the short run. Whether it is correct or not the data revealed that: -

a) In 3 years, 96 Companies out of 136 registered gains in the share price at the time of listing which accounts for 70.58% of the total.

b) In 3 years, 40 Companies out of 136 suffered losses in the share price at the time of listing, which accounts for 29.42% of the total.

Finding: - The retail investors rush to invest in IPOs proved fruitful as a substantial portion of issues registered gains on the date of listing. The confidence of investors boosted up. The data also revealed that: –

A. Gaining Companies analysis -

(i) 6 companies registered gains of more than 100% (Paras Defence 183% & Tata

(ii) Technologies 163% gains were prominent)

(iii) 13 companies registered gains from 50 – 100 %

(iv) 56 companies registered gains from 10 – 50 %

(v) Rest 21 companies registered gains of less than 10 %

B. Losing Companies analysis –

(i) 6 companies registered a loss from 50 – 93 % (Easy Trip 93 % & HMA Agro 90 % were prominent)

(ii) 9 companies gave a loss from 10- 49 %

(iii) Rest 25 companies registered a loss less than 10 %

It shows that gaining companies are more in numbers and their percentage of gains is also very significant.

(It is necessary to mention here that the companies which remained in limelight and popular among masses have registered losses, e. g. LIC of India, Paytm, Aditya Birla Sunlife AMC and Nykaa).

5.3. Subscription of Retail Individual Investors: -

Retail investors are very much interested in investing through IPOs. Most of the companies reserve a portion of their IPOs for the retail investors. Table No. 2 presents the status of oversubscription of retail portion of IPOs

Table 2 –

Oversubscription of retail investor portion in the IPOs during 2021 – 2023

Retail portion subscribed by	No. of Companies
More than 50 times	5
10 to 50 times	32
1 to 10 times	73
Less than 1	26
Total	**136**

Source: Own calculation from data available on website

Finding: - During 2021 – 2023, 136 companies came with IPOs, out of which 110 companies IPO were oversubscribed, which amounted to 80.88%. It shows the response as well as the confidence of the retail investors for investments in the capital market.

5.4. Analysis of various slabs of oversubscription of retail investors with the gain / loss occurred at the time of listing

It is interesting to know about the listing gains/ losses under above mentioned various slabs of oversubscription. Table No. 3 provides this data.

Table 3

Listing gains/loss as per oversubscription slabs

Oversubscription	No. of companies which listed in gain	No. of companies which listed in loss	Total
More than 50 times	4	1	5
10.01 TO 50 Times	26	6	32
1 TO 10 Times	51	22	73
Less than 1	15	11	26
Total	**96**	**40**	**136**

Source: Own calculation from the data available on websites

Findings:

(i) Companies whose retail proportion is oversubscribed more than 50 times:

4 companies out of 5 companies in this category (80%) resulted in gain on the Listing Day. It proves that the IPOs which are heavily oversubscribed are generating gains on the listing day. One of the companies; Paras Defence was on top with 185 % listing gain while HP Adhesives suffered a loss of 76% on the day of listing.

(ii) Companies whose retail proportion is oversubscribed from 10 to 50 times:

26 companies out of 32 companies in this category (81%) resulted in a gain on the Listing Day (prominent company was Tatva Chintan - 113% listing gain) while 6 companies suffered loss on listing day (Easy Tripat 93% loss was top loser).

It also shows that heavily oversubscribed IPOs do not disappoint retail investors.

(iii) Companies whose retail proportion is oversubscribed from 1 to 10 times:

51 companies out of 73 companies in this category (70%) resulted in a gain on the Listing Day. This category also shows that a good portion of companies provided listing gain. The prominent gainer company in this category was Tata Technology (163% listing gain); while top loser was One 97 Paytm with 27% listing loss). It is notable that Paytm launched the biggest ever issue at that time.

(iv) Companies whose retail proportion is oversubscribed less than 1 time:

15 companies out of 26 companies in this category (73 %) resulted in a gain on the Listing Day. The topmost gainer was Sona BLW, which gained 25 % on listing day while the topmost loser was Macrotech Dev, which listed at a loss of 52 %. As far as listing gain is concerned this forth category of less than 1 % also did well. It proves that the investors are gaining in all categories of oversubscription.

All the above findings prove that companies with oversubscribed retail proportions are faring well in the short run. It is also found out that as the oversubscription proportion reduces, the returns on share price of companies doing well also decreases. It depicts the behaviour of retail investors towards the IPO.

6. Conclusion

The economy has been on the boost during the Post - COVID 19 speriod, as more companies are collecting funds from the capital markets. Retail investors are rushing towards Capital markets. Most of the IPOs got heavy oversubscription from retail investors. It is a general phenomenon that Retail Individual Investors sell the IPO stock on the day of listing itself or within a week of Listing. As a result of selling pressure, share prices fall and investors suffer losses. They try to liquidate the investments immediately, either on profit or even on loss. This short-term investment strategy is mostly treated as uncertain. However, after COVID conditions, the retail investors assessed the situation and kept their investments for the long term. It is evidenced in the current study that most of the shares closed at gain on the day of listing.

The study proves that the heavy response from retail investors in IPOs also resulted in good listing day gain as well as gain in the long term. The IPOs with lower subscriptions are not faring well. Still, it is suggested that investors should invest in IPOs after proper research or take the help of financial experts/ planners. They should not follow herd mentality or go for frenzy decisions. The IPO issues of LIC, Paytm and Nykaa are the best examples. The retail investors who invested in these high-profile companies are disappointed in terms of share prices. The investment decisions should not be based on publicity or on emotions. It must be supported by the facts and figures.

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