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Role And Performance of IPOs in India: An Empirical Study

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ABSTRACT

The Capital markets plays a significant role in developing a nation's economy. It has been seen among nations, that a well-developed capital market is nothing less than a nation's true asset. In today's world of corporates, IPOs have become a means to promote the valuation of the company by bringing in huge sums of money from the general public in return for a small piece of the company's ownership. An Initial Public Offering (IPO) is a public offering that is issued by a private company to raise capital from general public to become a public company. This provides the investors a golden opportunity to enter the capital markets at an early stage, which may lead to better returns in the long run. This paper aims to provide an understanding of the concept of IPOs in the capital market and state the eligibility of a private company to launch such an IPO. It further talks about the pricing of every IPO and helps understand the allotment mechanism of such shares to the general public upon application. This paper also provides with an empirical research to help understand the perspective of individual's towards investors towards IPOs.

Keywords: *IPO, Shares, Investing.*

I. INTRODUCTION

In today's time, the business world is conquered by one who has the most money. Small businesses have flourished significantly over a span of a very short time. These businesses are usually started with limited funds and capabilities, though over time it gets the ability to truly expand its wings and take a huge leap towards success. In India, there are usually two broad categories of companies i.e. a private company and a public company. A private company is basically a closed group of people running their business with limited funds and liabilities. On the other hand, the public companies are the one which are listed on either of the National Stock Exchange (NSE) or the Bombay Stock Exchange (BSE), and is capable to raise funds from the public for is operations. Keeping this in mind, it is understood that public companies

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are usually the one which take in funds from the public to help in its growth by accelerating through the business with surplus funds. These markets are well driven and are controlled under the laws governing capital issues like the SEBI Act, 1992, Issue of Capital and Disclosure Requirements (ICDR) Regulations, Listing Obligations and Disclosure Requirements (LODR) etc. The SEBI was created to-

- Help regulate the securities market
- To upload the interest of investors
- To accelerate the pace of capital market growth

Capital market plays a significant role in developing a nation's economy. It has been seen among nations, that a well-developed capital market is nothing less than a nation's true asset. It drives the nation towards a faster economic growth, provides higher productivity, higher employment and better developed financial markets. This helps the nation and its businesses to flourish successfully. The major role of stock markets is to provide the public with steady and constant purchase and sale of securities at a better, more competitive price by providing with more liquidity. An investor may see investing in the markets as sacrificing the current price of rupees for the future price of rupees, but it involves both time and risk. The frequent fluctuation in the markets may take an investor from zero to a hundred in no time, and similarly the vice-versa. One might see it as the longer you hold your investment, the better are the chances of returns. Though as there is medium to high amount of risk involved, one may lose most of the invested money in case the company files for a bankruptcy or loses its value.

In India, the majority of the population hesitates to invest their income in the stock market. According to statistics, out of 1.3 billion people, only 18 million people have invested in the equity markets.

The capital market in India covers institutions like the Commercial banks, Insurance companies, Specialized financial institutions like ICICI, IDBI, UTI etc., Provident Fund Societies, Merchant Banking Agencies etc. The capital markets have been the true saviors of the economy and have truly been a blessing to the public as:

1. **Foster savings:** With the development of the capital markets, various companies and banks encourage people to save more and more. Over a period of time these small sums of savings become an investment which further leads to the progress of the nation, which can at any stage be withdrawn by the investor with profits as returns. This is a wiser approach over spending the same amount of money over assets like gold or diamond, or any other such illiquid assets like a plot of land.

2. **Encourages Economic Growth:** The capital market does not only reflect the general condition of the economy, but it also helps accelerate the economic growth. Investment of these funds into the economy helps growth of trade and industry in both the sector of the economy i.e. private and public sectors. This helps the economy reach new heights and supports in its smooth development.

3. **Promotes investments:** The capital markets assist in lending to the corporate housing and the government projects. These facilities are provided by various banking and non- banking companies. Various financial assets could be shares, securities, bonds, etc.

4. **Brings about stability in prices:** The capital market works to stabilize the values of stock and securities and tries to keep the fluctuation of prices to the minimum. This stability is done by providing capital to borrowers at a lower interest rate. This helps reduce the risk of speculative activities. Although despite its pros, the rapid growth in the markets can make the market susceptible to scams or misuse by select parties.

(A) Statement of the Problem

The economy of our country has always been striving for a better stand in the global markets. India is a land of opportunity, and some of the leaders in various fields across the globe are Indians. Keeping that in mind, India has been trying to expand its economic circle and become a developed country, from a developing country. The markets here have seen investments from foreign companies since the time the idea of share markets came into existence. This has helped India achieve a level of economic stability that was needed for its accelerated growth.

With so many investments spread across various sectors, the idea of an IPO came into existence. This was an idea that helped private companies to go public and take the advantage of various investment opportunities from various investor across the globe. This became a reason for accelerated business growth of various companies, which in turn helped the economy reach new heights.

This paper aims to address the need, the idea and the usefulness of IPOs and learn about the necessary factors for its running. This paper further talk about how the IPOs in return help the investors to grow financially. Also, to understand these problems, we have gathered primary data by means of questionnaires given out to the general public of different age groups for a better understanding of the subject of IPO.

(B) Hypothesis:

An IPO is an Initial Public Offer under which a company offers its shares to public for the first time. This is generally done by companies for its expansion and growth. It is a means for people to invest in a company at the initial stage, just when a private company goes public. There are various factors that need to be taken care of in the long with respect to the launching of the IPO. The performance of these companies with the money raised by the general public ultimately helps in the growth of the economy. This paper explains the role of IPOs and its performance over the years. It also aims to help understand the general public's perspective regarding the same.

(C) Research Objectives:

- Understanding what are IPOs and their role in the development of the economy.
- To examine why a company launches an IPO.
- Understanding the role played by regulatory bodies like SEBI.
- Analyzing the factors that affect the pricing of shares in an IPO.
- Understanding the concept of an underwriter amongst companies.
- To ascertain what is the use of a lock-in period for any IPO launch.

(D) Research Questions

Several authors have done extensive research on various topics relating to company laws in India, but this paper will focus on an in-depth study with respect to "The Role and Performance of IPOs in India". In this paper we shall study the concept for IPOs to understand the following:

i) What is the role/concept behind launching of an IPO?

ii) Who is responsible for the valuation of shares in an IPO launch?

iii) How are investments in the share markets regulated?

iv) Why do certain newly launched IPOs under-priced over over-priced their shares?

v) How soon is an investor eligible to withdraw the invested amount in an IPO?

(E) Research Methodology

The present study is an attempt of exploratory research based on the information collected from various secondary sources such as books, research journals available online, various websites, articles, bare acts and magazines in order to achieve the objectives.This study covers the role and performance of IPOs in India and how it plays a vital role in the development of the Indian economy.

(F) Limitations of the Study

IPOs are giving the people a vital opportunity to join in towards making profits over the years from the grassroot level, starting at a low price. I have tried my best to collect the most recent data and information from credible authors and writers for writing this paper. Though I did face challenges in collecting authentic information, due to the unavailability of printed books due to the current Covid-19 scenario. As a result of which I had to depend a lot on the information and articles available online. Despite that, I have tried my best to collect the latest information from the most credible sources.

(G) Literature Review

The concept of IPOs is one with potential for growth. Over the years, people have gotten more and more comfortable in investment in IPOs and the share markets. This is because of the better knowledge and understanding of the markets that only a few possess, while the others think of it as a huge risk to investments and hence do not invest in the same. But it has been seen, that over the years more and more people are entering the share markets as they are finally able to understand the potential that it possesses. These markets help investors grow their money significantly, while also helping boost the economy of the country at the same time.

There have been several authors with exceptional ideas on the topic of IPOs. With that as a reference, hereby are stated a few of those authors and writers to help in the better understanding of the concept of IPOs:

A journal published by Dr. S. Poornima, Aalaa J.Haji and Deepha. B on the subject "A Study On The Performance Of Initial Public Offering Of Companies Listed In NSE, India & Gulf Base GCC Index" write about the concept of IPOs and how the funds invested by the investors help accelerate the growth of the company. They further write about how investing in IPOs is not just a speculative game and requires well understanding of the markets. It further talks about the factors that affect the pricing of shares in an IPO. The writers also does an in-depth analysis about the performance of IPOs from for a period of over a year (January 2013-December 2014).

Dr. Shikha Bhatia and Dr. Balwinder Singh in their paper "A Study on the Long-Run Performance of Initial Public Offerings in India" write about the long run performance of 438 initial public offering in India that were listed in the Stock Exchange from 1992 to 2001. They write about how the stocks performed over a long period of time, and how the performance affected the economic growth of the country. They further write about how IPOs sometimes experience under-pricing which in turn deteriorates its performance over the years.

G.Sabarinathan, in her paper "Attributes of companies making IPOs in India" writes about the different activities that are involved pertaining to the different roles of an IPO, with the establishment of SEBI in 1992. The writer aims to help the people understand the evolution of IPOs in the markets and talks about the defining attributes of the IPOs that need to be taken into consideration before investing in the same.

Manpreet Kaur, Dr. Simranjit Singh and Dr. Neetu Prakash in their paper "Public Offer's Performance- An Analysis Of NSE Listed Companies, Since 2001" write about the overall performance of various listed companies in the NSE in terms of both an IPO, and an FPO over various different aspects through a series of years. The writes states that the performance varies drastically in terms of a short term analysis over a long term analysis. The writers further state that both the IPO and FPO behave very differently in different time i.e. short term and long term.

Sanjay Dessai in his paper "Post Listing Performance of Initial Public Offers (IPOs) in Indian Capital Market: A study" writes about the performance of shares after its listing in the primary market i.e. the BSE from July 2010 to June 2013. He also states that although investing in IPOs may be a safe bet, but over the years, the shares presented in various IPOs have been overpriced. He further states that in certain cases, despite the sensex jumping from 10,000 to 20,000 there was only a negative return on people's investments as the shares were highly overpriced.

Parveen Kumari and Dr. Satinder Kumar in their paper "A Study On Performance Of Indian IPOs During The Financial Year 2010-2016" write about the IPOs that were listed at NSE in the year 2010 to 2016. They write that the IPOs have been using the book building method as it is effective to show the investors initial profits as every investor wants to make quick profits. They further talk about how several IPOs are under-priced and overpriced and how people react to them individually.

II. ROLE AND PERFORMANCE OF IPOS IN INDIA

(A) History

Over the years, the Indian Market has witnessed phenomenal structural change in such a positive manner that the same is now compared with the capital markets of various developed countries. Up till the 1980s, the capital markets in India were dormant. The onset of globalization and reforms in the financial sector brought a drastic change in the financial framework of the country. Since the reforms came into picture in the early 1990s, the numerous changes in the structural and institutional activities pushed the financial markets and brought about a huge transformation in the Indian economy. During the time, both private and the public banks had started functioning. It was during this time that several reforms in the capital market changed the corporate investment behavior of the country:

1. **Birth of regulatory bodies:** The Securities and Exchange Board of India (SEBI) was empowered in 1992. This body was created to take care of the interest of the investors and to develop and secure the securities market. With the coming of SEBI into existence, certain guidelines were put into place to help secure the markets and its investors. This further helped in building transparency by providing for proper guidelines and circulation of the securities market.

2. **Depository Services:** Due to the absence of technology, a physical copy of shares had to be transferred until the 1996. These physical shares had to be remitted to the company through post in order to sell any shares one may possess. This took an average time of about 45 days to process through. This caused problems as the stock was not liquid enough during that time. But with the coming of the Depository Act, the depositors were allowed to dematerialize their physical shares into electronic form. This helped reduce the handling costs of a share and further reduced the cases of forgery in the market.

3. **Pricing of Issues:** Post, the abolition of the controller of capital issues, the control of the pricing of the share was left to the markets. This helped in better price discovery.

4. **Foreign Portfolio Investment:** Another major reform took place in the year 1993. This was the opening up of the Indian stock markets for the portfolio investment and because of this several foreign institutional investors, for the first time were permitted to invest in the Indian stock markets. This helped India to strengthen India's foreign exchange reserves.

(B) Initial Public Offer

Every business in today's time wants to grow at a rapid pace and keep up with the constant competition by bring in more money from its investors in case of a public company and set higher standards. One of the major ways of such investment form the public is by means of an IPO. When an unlisted company makes either a fresh issue of shares or the companies promoters offer holding of shares for sale for the first time to the public, it is called as an Initial Public Offer (IPO).

An IPO means an "Initial Public Offer" under which a company sells its shares or offers its shares to public for the first time. The offer is generally issued by the new and smaller companies to expand their capital, but the same can also be seen doing by large private companies to become a public company. It is a help to a new flourishing business as the new companies do not have the resources to go conduct an IPO. Due to this, the small and medium sized businesses rely on business and personal loans to help keep the company afloat. In order to make it big, such small businesses need investments from big companies/investors which in

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turn take up a part of these company's share. Since the investment is usually a big sum, the investors in the company often guide the small businesses to help make it big in the corporate world as the investors hold a part of the company's shareholding. At any later stage when such business flourishes, the investor may choose to invest more in the company, or may also choose to withdraw/sell his equity to another company, to the same company, or to sell the part of his shares to any other company as an acquisition to that company.

The same way when the company expands its operations, it may choose to call for an IPO which could be the means to raise funds by the general public for expanding the company's operations. This in turn helps the company accelerate its development process and helps provide the pubic with better profits. The small companies usually go public for added funds to expand the business, whereas the big companies usually go public to become publicly traded.

IPO can be affected by different factors like the issue size, delay in listing time etc. It is to understand that investing in most IPOs can be very risky. This is because for an average investor it is tough to understand and predict how the stock or share would react to the market and usually in case of most upcoming companies, there is very little data to understand the growth pace of a company as there is uncertainty regarding its future value.

The main aim of an IPO is to help raise capital for the company. Under this the company is not required to pay back the capital but the investors are entitled to profits over a period of time.

Once shares are allotted, an IPO investor has a prescribed lock-up period which is provided by the company. A lock-up period is a the caveat outlining a period of time after which a company has gone public when major shareholders are prohibited from selling their shares. During this lock-up period, the insiders and early investors are not allowed to sell off their shares, helping to ensure a fair IPO and not flood the market with additional shares for sale. This lockup periods usually last anywhere between 90 to 180 days. It is upon the end of this period, that most trade restrictions are removed.

(C) Types of IPO issues:

- **Fixed Price Issue:**

Under this IPO issue, the company evaluates its total assets, liabilities and other financial aspects. Those figures are then studied by the professionals to determine the pricing of the IPO (face value per share).

This price of this IPO is fixed from the very first day and is printed in the order documents. The total demand for the IPO is given after the issue is closed. Usually, the oversubscription level in fixed price issues are high and sometimes even touch several hundred times. The demand for the issuance of such issues is known only after the closure of the issue.

- **Book Building Issue:**

Under this IPO issue, the price is determined during the process of the IPO. There is no fixed share price given, instead the company provides for a price band under which the shares would be issued. The lowest price in this range has been termed as the "floor price" and the highest price in this range has been termed as the "cap price".

The price band is printed on the document and the investors are free to bid for their desired quantity of shares with the price they are willing to pay but within the price band. The value of shares is then decided and based on these bids. The securities are then offered to the public at a price set between the floor and the cap price. The demand for this issue can be known every day.

(D) Concept of under-pricing in IPOs:

The valuation of the offering price is of key important to the IPO. The IPO price is determined and set up underwriters of the participating public in the offering. In the case of a small IPO, the offering price could be determined by a bookrunner i.e. the main investment bank that directs the offering of a company's stock. On the other hand in case of a major IPO, the offering price is set by a group of underwriters i.e. several investment banks.

The role of an underwriter is of great value to the company as it's the job of the underwriter to assess the true current value of the company, as well as predict its value in the future based on its current growth. They also take in the factors including the risk associated with investments. After all these calculations, the trend of prevailing supply and demand are taken into picture.

The underwriter also has to make sure that the price of the IPO is high enough to raise sufficient capital for a company while still being low enough to gain the interest of the potential investors to purchase such shares. This is because in case the underwriter sets a low price, the company would not be able to raise enough capital, and in case the price is too high, it may make the investors lose their interest in investing in the company itself.

Now despite there being a proper valuation mechanism used in the case of underwriters, there is still a tendency for the IPOs to under-price their securities when going public. This is often referred to as "leaving money on the table". The idea behind it is of one person following the other. In the case of securities market there are two categories of investors, one being the insiders i.e. the people like brokers that deal in the market on a daily basis and the other being the outsiders i.e. the general public. The idea behind it is that the insiders know the real value of the company over the outsiders of the securities market.

In case the insiders feel that the IPO is under-priced, they would buy the shares, following which the outsiders would lead in their footsteps and buy shares too.

On the other hand in case the IPO is overpriced, the insiders would not buy it which would lead to the outsiders following in their footsteps again leading to not buy the same as well. Thus, this is a strategy that is used and followed by the companies to get a better offering chances.

It is also to understand that the offering price is different than the opening price. The offering price with respect to the securities market is the price at which securities are issued in the IPO and can be acquired before the start of the actual trading of security on the exchange platform. On the other hand, the opening price is the price at which the freshly issued securities start trading on the first trading day. The opening day price is actually set by the force of demand and supply in the markets.

(E) Understanding the Offer Document/Prospectus:

There are several norms and details made by SEBI that are made mandatory to be followed before giving out the documents for applying for an IPO. Several major parts of this offer document is supposed to have the parts that are stated below:

(a) Cover Page

- This provides for the full details of the issuer company, its managers and registrars.
- It further states the price and amounts of instrument offered and issue size.
- It also carries other details like the Credit Rating, IPO Grading, risks involved and other facts to be disclosed by the company.

(b) Risk Factors

- This provides for the risks involved in the company about which the management of the company gives its view on.
- Any other information to be disclosed is stated under the same head that may be of risk.
- It is always advisable to any investor to check and verify all risks before making any investment decision.

(c) Introduction

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- The introduction consists of the basic summary of the industry under which the issuer company operates.
- It further provides a summary of the consolidated financial statements of the company to help the investor understand its stand point. It also states the merchant bankers and their responsibilities, the details of its brokers, credit ratings, etc.
- Further other important details of capital structure, funds required, sources of finance, tax benefits etc are also stated under the same.

(d) About us:

- A basic review of the details of the business and its strengths along with its insurance, history, objectives are provided.
- Also other related structures of corporate governance, related party transactions, dividend policy are stated herein,

(e) Financial Statements:

- The basic structure of financial statements are to be stated here in accordance with the guidelines of the different accounting policies.

(f) Legal and other information

- This heading states any outstanding litigations and material developments with respect to the company.
- It further states any other legal proceedings against the subsidiaries of the company.
- It also states the material developments, government approvals and licensing arrangements, and any other indebtedness are disclosed.

(g) Other regulatory and statutory disclosures

- This heading states the authority for the issue, any prohibition by SEBI, or any other eligibility of the company to enter the capital market.
- It further states for the minimum subscription, letter of allotment and other refund orders in the last 3 years.
- It also states commission and brokerages, capitalization of reserves or profits etc.
- It also states any purchase of property, revaluation of assets etc.

(h) Offering information

- This head covers the terms of issue, ranking of equity shares, modes of payment of dividend.
- It also covers the rights of the equity shareholders, issue procedure, signing the underwriting agreement and filing of prospectus with SEBI/ROC.
- It also states information of allotment or allocation, undertaking by company, bid form instructions, refund of excess bid amounts etc.

(i) Other Information

- This covers description of equity shares and terms of the Articles of Association, material contracts and documents for inspection, declaration, definitions and abbreviations, etc.

(F) Process of launching an IPO

- **Stage 1:** Preparation of Registration Statement

The first step of the company getting prepared to launch an IPO must start with preparing of the Registration Statement to the Security and Exchange Board of India (SEBI) under which it shall incorporate a properly detailed report of its business plans and its well-being. SEBI verifies and investigates the report provided and does a careful and a thorough background check of the company. It has to make sure that the company is in compliance of all the necessary rules and requirements.

- **Step 2:** Getting the Prospectus Ready

While the registration process of the statement with SEBI is in progress, the company with the help of the underwriters must make a preliminary 'Red Herring' prospectus. A red herring prospectus (RHP) is a basic preliminary registration document that is filed with SEBI in the case of book building issue which does not have the details of either the price or number of shares being offered or the amount of issue. This means that in case the price of the shares is not disclosed, the number of shares and the upper and lower price bands are disclosed. On the other hand, an issuer can state the issue size and the number of shares are determined later. In the case of book-built issues, it is a process of price discovery as the price cannot be determined until the bidding process is completed. Hence, such details are not provided in the Red Herring prospectus filed with ROC in terms of the provisions of the Companies Act. It is only upon completion of the bidding process that the details of the final price are included in the offer document. The offer document filed thereafter with ROC is called a prospectus. While awaiting the approval for the statement of registration, the company, must make a preliminary 'Red

Herring' prospectus with the help of its underwriters. It puts in place the financial records, future plans and the particulars of an expected share value range. This document, referred to as the prospectus is intended for prospective investors who may be interested in buying such shares.

- **Step 3:** Promoting the future IPO

After the prospectus is prepared, the underwriters and the company authorities go on countrywide campaign for promoting the company's IPO among few private purchasers which usually consists of High Net worth individuals. These individuals are then provided with the company's detailed data and a report of the company's future development plans and its potential. The idea is to get the attention of such High net worth individuals and use it to create a buzz in the securities market.

- **Step 4:** SEBI Approval

Once SEBI is satisfied with the registration statement and its compliance with other necessary documents, it announces the effectiveness of the statement, giving an approval to the IPO to take place and a date is fixed for the same. Post this approval, a copy of the prospectus is sent to SEBI to verify the same in case there are any corrections needed in the same. Once corrected and verified by SEBI, the company needs to choose a stock exchange where it means to sell its shares like the National Stock Exchange or the Bombay Stock Exchange, and then it gets listed.

- **Step 5:** Deciding On Price Band and Share Number

Post the approval from SEBI, the company, with help from the underwriters settles the price band of the shares. It furthermore chooses the number of shares to be sold in the IPO process.

- **Step 6:** Availability to the Public

On the dates mentioned in the prospectus approved by SEBI, the shares become accessible to the public for bidding. This is when the investors can set the cost at which they wish to make the purchase of shares and the present its application.

- **Step 7:** Issue-Price and Share Allotment

When the time limit prescribed for subscribing to the shares lapses, individuals from the underwriting banks, share issuing company, etc. will meet and decide the price at which the shares would be issued to the prospective buyers. The price would be directly controlled by the demand and the bid price cited by the investors. Once the price is settled, the shares are allotted to investors depending upon the bid amounts and the shares are made accessible.

- **Step 8:** Listing and Unblocking of assets

The last step is the listing of the company in the Stock Exchange. Investors who have applied through Applications Supported by Blocked Amount (ASBA) and to whom shares were allotted would get the shares credited to their demat accounts and their funds getting debited from their account. On the other hand, for those investors to whom the shares were not so allotted, their funds would get unblocked in their bank accounts.

(G) Advantages of an IPO

- The company has cheaper access to Capital:

The company upon launching its IPO has easy access to a significant amount of capital at its disposal. This helps the company to accelerate its growth and flourish the business in a shorter time span.

- Increase in the prestige and public image of the company due to high exposure:

The name of the company starts being picked up and recognized by individuals as a brand upon launching its IPO and the people who were once not even aware of its brand name, step ahead of the crowd to buy the shares of the company through its IPO.

- Helps attract better management and employees through liquid equity:

As the company becomes better known and as the capital starts to flow in, it is able to hire and recruit more efficient employees with a better understanding of the field with more experience.

- It also helps in creating different financing opportunities: equity, cheaper bank loans, convertible debt etc.

(H) Disadvantages of an IPO

- Significant account, marketing and legal costs to be incurred:

Once the company goes public, its primary aim is to generate profits for its shareholders despite there being several other costs that the business has to incur on a daily basis. Expenses in terms of marketing grow every year to keep up with the reputation of the brand. There is also the legal costs that need to be incurred by the company in terms of going public, and also keeping updated with all the SEBI regulations and its compliance.

- Loss of control

Once a company is listed in the stock exchange, it becomes a public company. Upon becoming public, the actual owner of the company may lose significant control as the decisions taken post going public need to be unanimous with the members of the board of the company. This may cause loss of control to the company.

- A lot of time, effort and attention needs to be given to the management:

With the funds being used for significant acceleration and growth of the business, there has to be invested in the business a massive amount of time, energy and effort on a daily basis so that the company is able to show profits to its investors over time, making them not lose faith in the company.

- Risk of not meeting the target of required funding:

There may be a case in an IPO where the IPO is undersubscribed. Such a situation may cause lesser funds, causing difficulties in the running of the business. This may in turn lead to loss on the part of the investors.

(I) How are IPO shares allotted?

Initial Public offering is a process in which a private organization makes the shares of the organization available to the general public for purchase. This application is made available to the banks and the bid for the same is conducted online. There are numerous people that apply for every IPO, but not every individual that applied for the same gets shares allotted to himself/herself. There are only a certain number of shares that an organization gives out in every IPO, based on the capital required by the organization.

After the organization launches an IPO to the public, the investors can bid on the online platform. Once the bids are placed in the prescribed amount of time, the invalid bids are removed by default. The IPO bids that are placed online are made in 'lots' of a specific number of shares. Any individual can apply to buy these shares only in such specified lots.

- Post the process of bidding, there might be one of the two situations that may arise-

If the number of successful bids is less than or equal to the number of shares offered by the organization, then a complete allotment of shares will be made. On the other hand, if the number of successful bids is more than the number of shares offered by the organization then the allotment process would require a more efficient planning as there will be a decision to make with respect to who would be allotted a specific lot of shares.

SEBI, the law governing body with respect to shares, states that in case of more bids than the actual number of available shares, every individual shall be allotted at least one lot out of the total number of such shares.

The structure of allotment of shares may vary between different IPOs, but in the general sense a specific limit of allotment is followed. Keeping this in mind, the IPO allotment process is usually conducted between **3 major tiers**:

a) To the Institutional or qualified institutional buyers (QIB)

The allotment of shares to QIB s usually done through merchant bankers. The merchant bankers generally refers to a financial institution that conducts underwriting, loan services, financial advertising etc. for large corporations. It is to also understand that unlike commercial banks, it does not provide financial services to the general public. In case of over subscription of allotment of shares to QIB, the shares are allotted proportionately to different QIBs.

b) To Retail Institutional investors (RII)

The allotment of shares to the retail investors are allowed to be applied with a smaller worth i.e. an amount ranging from Rs.15,000/- up to Rs. 2,00,000/- for the allotment of such shares. Based on the demand of such shares under the IPO, the shares will be allotted to the retail investors.

In case the demand for allotment of shares is less than the shares offered, then full allotment of shares will take place. On the other hand if the shares are over-subscribed, then one of the two possibilities may take place-

i) Small over-subscription- In case there is a small over subscription, the minimum lot available would be distributed amongst the investors.

ii) Large over-subscription- In case there is a large over subscription, then the allotment takes place by a system of lucky draws. This lottery system is computerized and chooses the allotted shareholders at random. This approach is put into play to avoid any kind of impartiality amongst the shareholders.

c) To Non-Institutional investors (NII) or High Networth Investors (HNI)

The allotment of shares to the HNI is are allowed to be applied with a large amount of money. In such cases, the investment of shares shall exceed a sum of Rs. 2,00,000/- in an IPO. In case of any oversubscription, the HNI are allotted shares in a proportionate manner as well.

This helps us understand that every segment has its own percentage of shares that can be allotted to it, the segregation of which is usually defined by the company allotting such IPO shares. The shares are allotted in a manner that is fair to every individual and no impartially exists in this system.

(J) Primary markets over Secondary markets

Before the advent of demat, there was a benefit of investing in IPOs. This is because before the system of demat came into existence, most secondary market purchase of shares had to be done in minimum lot sizes. In such cases, it was only the IPOs where an individual could actually invest small amount of funds and become a shareholder of a company. But the system changed with the coming of dematerialization. This system made it possible to buy or sell even 1 share of a listed company. But despite that being the scenario, in today's time there are several advantages of investing in an IPO over secondary markets like:

- IPOs provide access to quality unlisted stocks:

Over the last decade, several number of quality unlisted names have entered the market through the IPO route. Companies like D-Mart, Shankara Building Products, Dr. Lal Pathlabs, ,SBI Life etc. have hit the IPO market hard. This has given the investor an option to choose from various companies to invest in. The same shares could later be purchased in the secondary markets, but the IPO route to achieve such shares is a wiser and a cheaper choice which would usually lead to better profits in the future.

- IPOs give access to quality paper from PSUs owned by the government:

In the past decade, the divestment of quality PSU companies has given a huge choice of quality paper to invest in. One of the biggest outperformers in the last decade, Maruti Suzuki was sold to the public through the process of an IPO.

- These companies that are owned by the government offer the safety of government owner ownership, comfort of healthy dividend yields and a favorable operating environment. Procuring these stocks in the IPO phase is a favorable thing to do as these stocks tend to get overpriced by the time they get listed in the secondary markets.
- The new IPO norms offer preferential treatment for small investors:

SEBI, the securities exchange body has made numerous rules and regulations with respect to the allotment of shares through different categories to the public of different segments. This is as under these new allotment norms, that the small investors are eligible to get higher allotments with the focus on broadening the retail ownerships. These benefits that are not available in the secondary markets.

- IPO norms have been made more stringent by SEBI:

In the last few years, SEBI has been making stringent norms for the protection of its retail investors by regulating companies and investors to follow higher standards of disclosure and transparency. This clarity on part of the investors and companies have helped make the primary securities markets a lot more professional and safe for investors. These IPOs also help to consolidate all intelligence pertaining to the company into the prospectus, helping the investor make better investment decisions.

Unlike the secondary markets where there is a glut of information but limited insights, the IPOs manage to consolidate all the intelligence pertaining to the company into the prospectus.

- IPOs give you the benefit of information symmetry:

The IPOs are not tracked by any analysts and no insider in the market has an edge over the same. The only common source of information is the prospectus of the company. This helps all investors make a similar decision method, that is without one having any added benefit over the other.

- IPOs work out under the ASBA rule:

The ASBA route is usually taken under the allocation of IPO shares in the retail investment. All applications following the ASBA route ensure that the amount is debited to the account only after the shares are allotted.

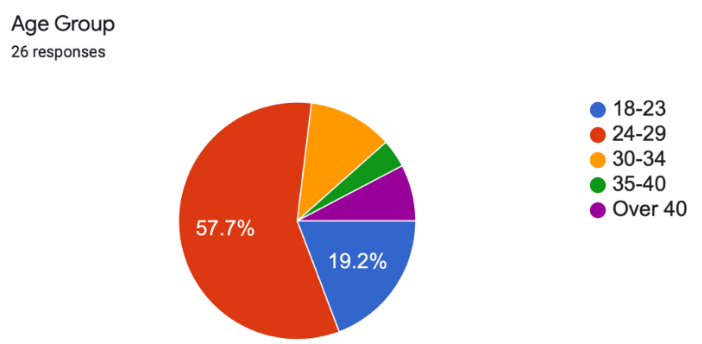
III. Data analysis

Primary data gives real shape to the work the work. I have taken interviews with existing investors, non-investors and other parties have been conducted to collect the primary data. As per the requirement of the research a questionnaire was designed for the primary data collection. And then that was distributed to over 26 respondents (students, company employees, retired people, brokers) for their responses.

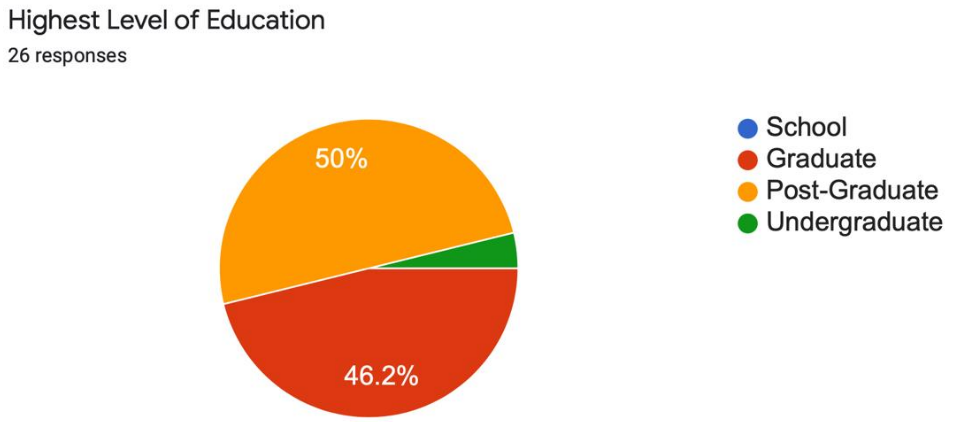
Data presentation and Analysis Method

After the collection of data, an analysis of such data and the interpretation of its results are necessary because data collected from various sources might be in a raw form. Further, the same needs to be verified and simplified for the purpose of analysis. The obtained data should be classified and tabulated in the required format according to the nature of data and requirement of the study. Data analysis helps to the reader to understand the subject and get a clearer idea about the said subject. This part contains several statistical tools.

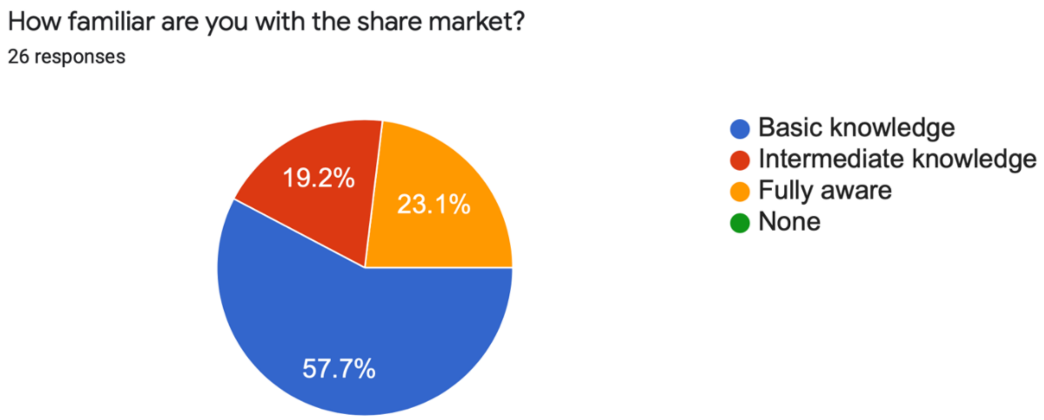
Following is a question-by-question analysis of the responses received through the structured questionnaire circulated via google forms:



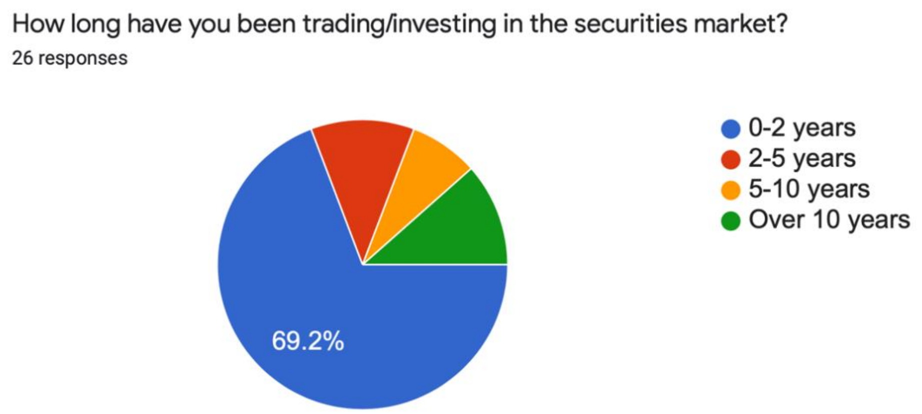
The data provided in this research paper has been collected from various people of different age groups to help understand the idea of IPOs amongst the various age groups. This approach of collecting data from both men and women from different age groups help us to understand and establish a common ground amongst people of different ages regarding the survey conducted.



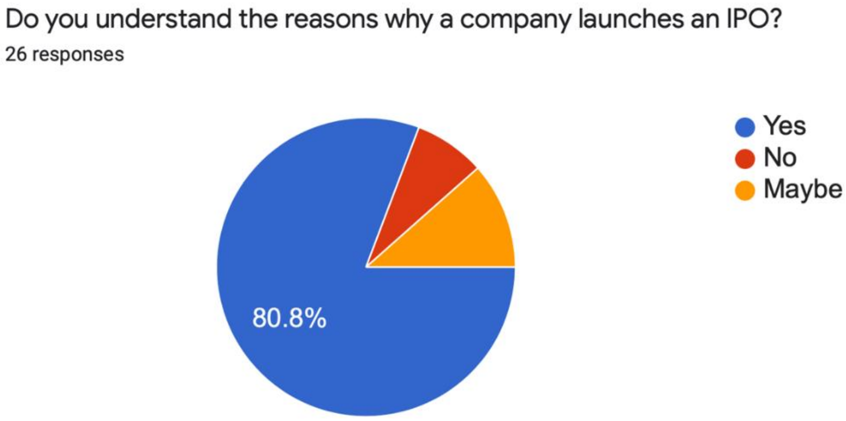
The data collected and represented in this depiction, helps us to understand and states that this data has been collected from people with a good level of education. Amongst this there are people with different levels of education including undergraduates, graduates and post-graduate. This helps us to get a better insight of people from various education backgrounds in different fields like MBA, law, engineering who understand the concept of IPOs and the ideas of investing. As it can be seen that half the people, being the part of the survey are post-graduates. Whereas about 46.2% of the people in survey are graduates, who also are well aware and have a high level of understanding of the same concept. The last few under 4% of that people are undergraduates who comprehended the concept of IPOs.



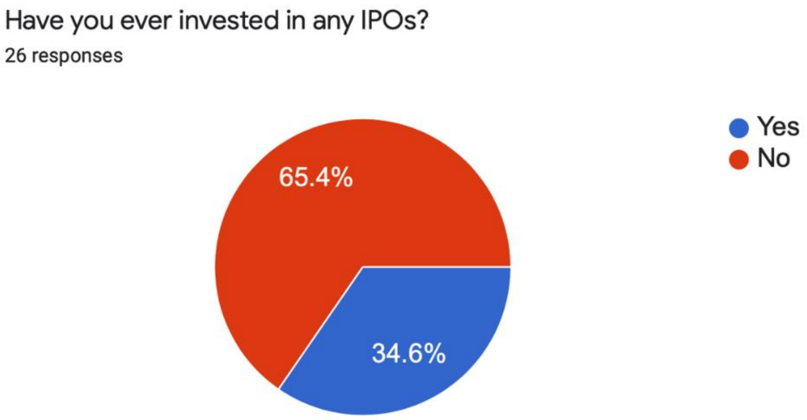
From the data collected and represented in this depiction, it helps us to understand that amongst the people taking this survey, majority of the people i.e. about 57.7% possess a very basic level of understanding with respect to what a share market. Since most people under this survey are young adult, a majority of them have a basic knowledge of the share market. Apart from that, about 19.2% people involved in the share markets possess an intermediate level of knowledge. These could be the people with some level of economic education with respect to investing. Whereas the remaining 23.1% people are fully aware about the share markets and its working and could fall under the category of experienced investors.



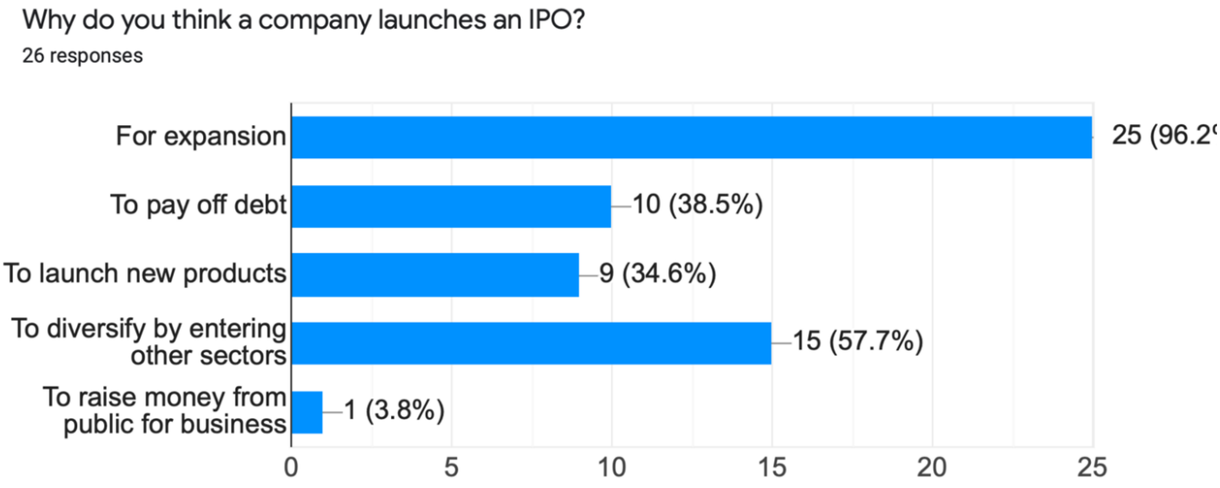
From this depiction, it can be understood that a vast majority of the people i.e. about 69.2% involved in this survey have been trading/investment for a span of time of under 2 years that's a short amount of time. This could state that these people have little knowledge about the market. It can be further seen that there are only about 11.5% people that have been involved in these activities for a period 2-5 years. This could imply to a better knowledge and functioning of the markets, and there is a good chance of these people to understand how the market is regulated and how it functions. While there is a negligible number of participants in the 5-10 year of experience category, there is a comparatively higher rate of 11.5% of people that have been actively involved in the markets for a period over 10 years. These people are generally highly knowledgeable and have a much advanced level of insights over the market due to their high level of experience in dealing with shares. These people usually understand the functioning of the markets and are able to speculate the volatile movements of the shares involved in the securities markets.



It can be understood that majority of people i.e. about 80.8% involved in the survey are well aware about the reasons why a company launches an IPO in the first place. There could be several reasons for such a high percentage of informed people such as government articles, media, newspapers, promotions of companies etc. According to the survey, there is a minimal percentage of about 7.7% people who have slight to no idea about why a company launches an IPO. This could be people with lack of education/awareness and could also include children or undergraduates. To help these people, an in-depth study about IPOs has been covered in this paper.

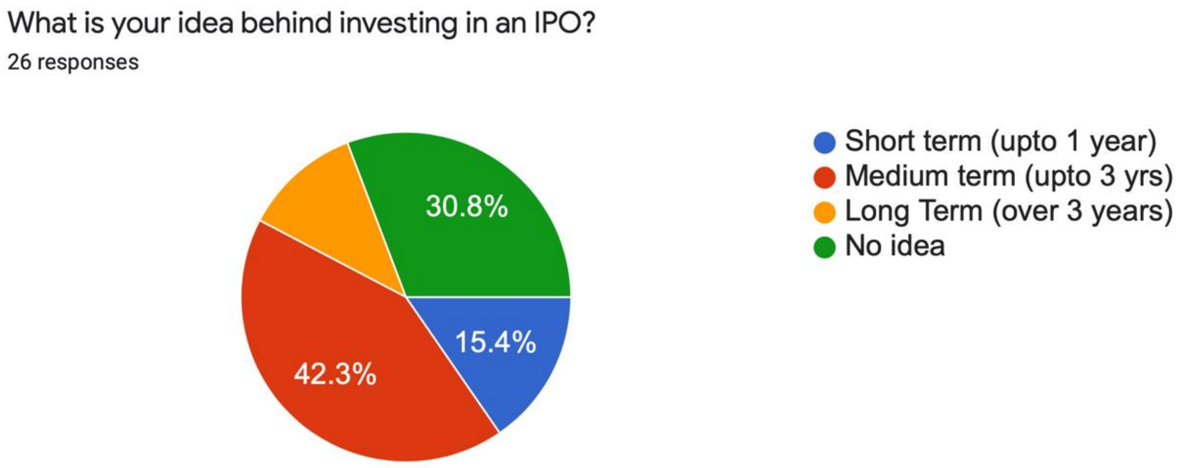


From the depiction, it can be easily understood that a few people, much under 34.6% are actually investors/ have invested in IPOs in their lives. This is a very small number of people amongst a huge population. A major reason of this could be the understanding that a majority of people involved in this survey are not comfortable taking risks with their money and that they are not actively involved in applying for IPOs as they are not exactly aware of its concept. Also, there is a lack of trust in the non-investors in the market because of huge financial scams like the Harshad Mehta and Nirav Modi scam in the past. This is another major reason why most people choose not to invest in IPOs or any other shares.

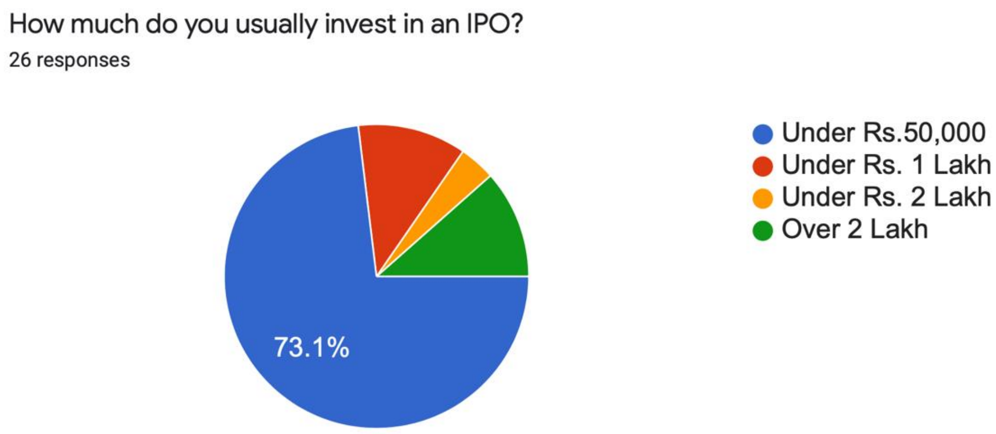


From this tabular depiction it can be understood that a good number of people actually understand the concept and reasons behind a company launching an IPO. As it can be seen about 96.2% people understand that the IPOs are launched by a company for expansion of the business that the company is already dealing in. There is a fair enough number of about 38.5% people involved in the survey who believe that these funds may be used by the company to pay off the debt. This is a possible factor in the launching of an IPO as there have been several companies in debt who in order to revive have raise funds from the investors. It is usually after such investments that the company is able to overcome the crisis and is able to revive and come back stronger than ever. There are about 34.6% people involved in the survey that understand that idea that the company may need funds to expand its business and launch new products, which at a later stage would generate profits for these investors.

About 57.7% of these people also state that a company takes in funds by the investors through the way of an IPO to diversify its businesses and enter new space for doing business as a basis for its expansion. It is also noteworthy to see that according to an anonymous investor, the money by the way of an IPO is raised by the company from the public for doing business which is the basic idea behind running a business.

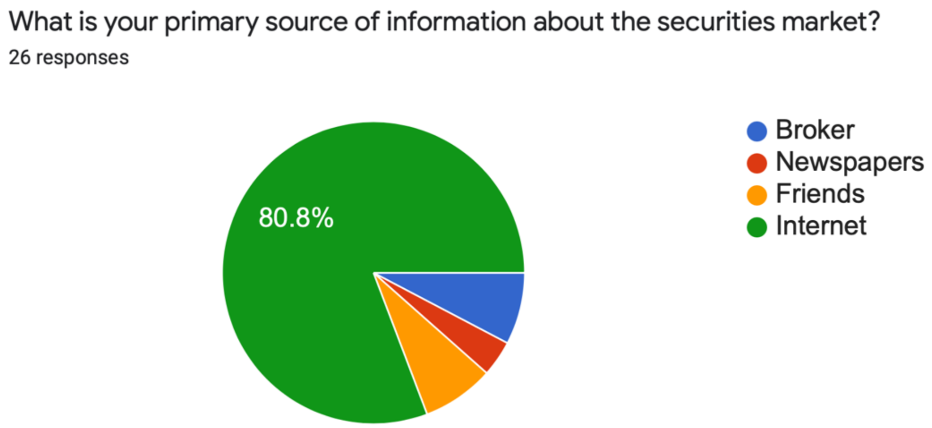


From this depiction, it can be seen that variety of investors have various different approaches to investing in IPOs. Apart from the people in this survey that do not invest in IPOs, there is a fairly high number of investors about 42.3% that invest for a medium term that is up to 3 years in total. This is generally the ideal scenario for getting smaller gains at an early stage. It can also be seen that a fair number of about 15.4% people withdraw their money from the IPO in the very first year usually as soon as the lock-in period ends, as this is the quickest way of making quick money in most scenarios. Lastly, there is a very low percentage of about 11.5% investors, who truly continue being part owners of the IPOs and see them grow over the years and get great benefits at a much later stage.

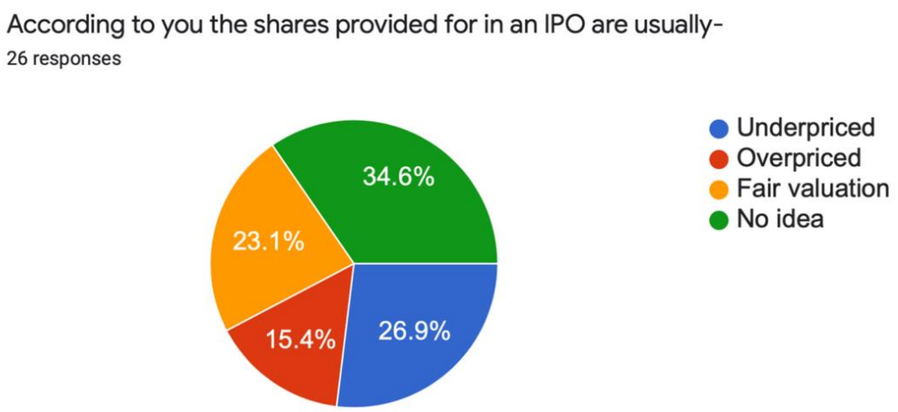


A lot of people have been investing in IPOs in the last decade. But every prudent person would invest as much as their pockets would allow them to invest. Amongst the group of people that took part in this survey, a majority of people about 73.1% invest much under Rs. 50,000/-. A major role in this could be played by the Indian ideology of saving more and investing less.

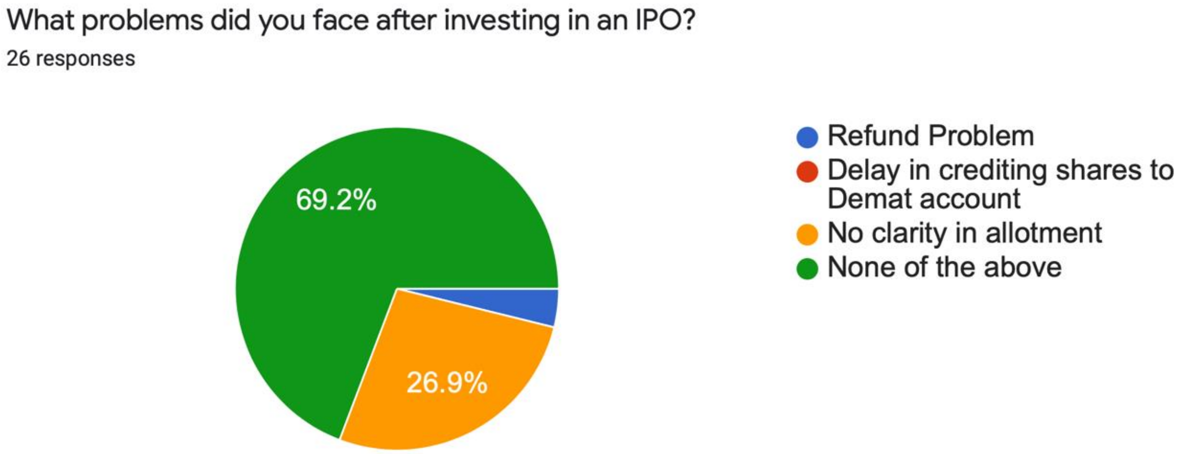
Also, little to no knowledge about the share market may be a crucial factor that could demotivate the investor to invest. There are only about 11.5% people that invest under 1 Lakh rupees. This could be the group of people with a better some knowledge of the market. It can also be seen that there are a very few people investing money under 2 Lakh. Lastly, there is a small number of about 11.5% investors that invest over a sum of Rs. 2 Lakh in an IPO. This could be the people with advanced knowledge about the share markets, who understand how the market functions.



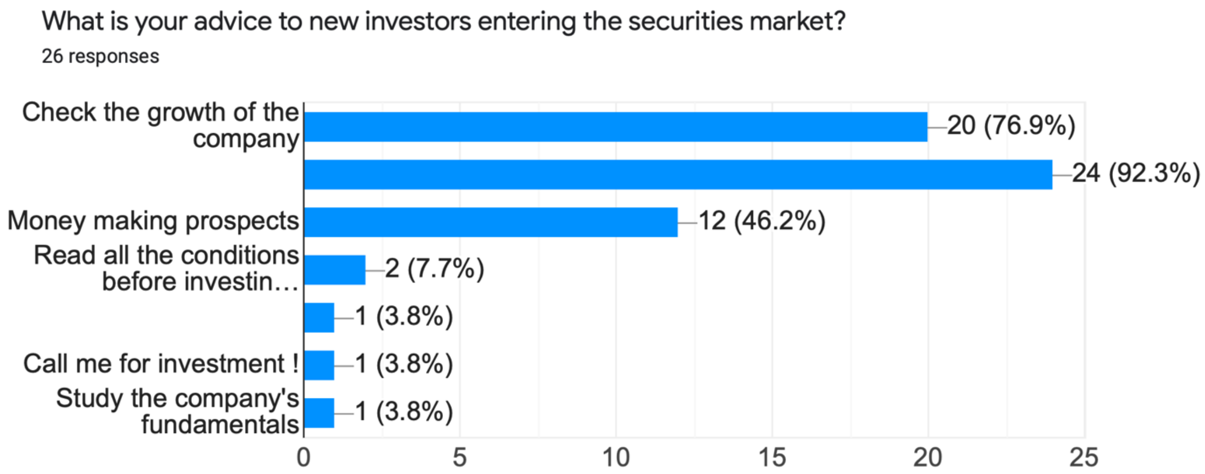
This depiction states about what the primary source of information is for most of the people investing in the market. Under this head, the majority i.e. over 80.8% people get their primary information from the internet. The internet is hugely populated with several news articles with respect to the performance of various IPOs and the running of the companies in the first place. Under this figure, a very small number under i.e. 19% people use other sources for gaining information from their brokers, information from their friends or even the newspapers since most people in the digital space have better access to the news on the internet through their mobile devices on the go.



This depiction talks about the share value provided for by an IPOs. Shares according to different investors are recognized differently. Over 34.6% of the non-investors have no idea about how the concept of IPO works. But amongst the remaining investors i.e. about 26.9% investors think that the shares provided for in an IPO are usually underpriced. Another 15.4% think of these shares as being overpriced. The remaining 23.1% believe that these valuations are fair as they are generally priced by underwriters, which are the professionals in this field. This shows that varied sense of understanding of pricing of the IPOs amongst the people taking the survey.



This depiction states that no problems were faced by over 69.2% of people in the IPOs as there are a very few investors in the IPOs. Apart from these people, there are 26.9% of the people that face issues with clarity in allotment. While there are is a very small section of people who face refund problems as the markets are strictly regulated by SEBI.



As per this tabulation, over 76.9% investors recommend new investors entering the market to check the growth of the company, about 92.3% state that a new investors should check the future prospects of the company. These investors are usually the educated group of people who are willing to take calculated risks. About 46.2% state that one should enter the markets with the intention of making money.

A very few i.e. 3.8% investors state that one should read the conditions before investing in any share in the market. Similarly, there is another 3.8% that suggest to study the company's fundamentals.

IV. Conclusion

IPO is like every other investment opportunity that an investor may come across, except IPOs more often have the opportunity to grow exponentially over the years as the company grows.

Although in today's time as people are getting more and more familiar with the concept, lesser people are getting allotted with the IPOs as there tends to be massive amounts of oversubscription under the same. One major reason behind this could be that the people are starting to understand the value that the IPOs hold and the returns that it can provide to its investor in a short span of time.

Despite this knowledge one should carefully study and examine the true potential of the company before investing as investing in the share market may turn out to be risky if done without proper research. Moreover, the investment in the primary capital markets indirectly help in the economic growth of the country. This is a major reason why various foreign countries are so developed as they have a good cash flow through their economy. Whereas in India according to recent statistics, only about 1.8 million people out of 1.2 billion population invest in the capital markets, which in turn affects the economic growth of the country. It can also be understood that a part of the capital market investments come from foreign institutions as they are also aware of the potential that the Indian share market possess.

Post our analysis, it is clear to a major extent that despite there being a basic level of knowledge present among most individuals, there has been a reluctance towards the share markets by the individuals. Amongst many reasons, the one major factor is the lack of trust in the capital markets, due to personalities like Harshad Mehta and Nirav Modi and their scams. But looking at the positive aspect of it, the securities market has now over the years, been strictly and properly regulated to provide the investors with the highest amount of security with respect to their investments, making them feel more confident towards investing and uplifting the economy.

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V. SUGGESTIONS

- The first crucial step towards investing in an IPO is learning as much as one can about the company going public. This helps the investor to understand what the company is and what it does. This is important as despite there being a rule to disclose all necessary information through the prospectus, the prospectus itself is made by the company itself and not by an unbiased third party. Also proper research on the part of an individual may show that the information provided in the prospectus may be overblown.

- Every investor, new or old, should always make sure to read the prospectus of the company to understand what field of work does the company do and what its idea behind launching the IPO is. For instance, if the IPO is being launched to pay off bad debts or pending loans, it is usually advisable to not invest in that particular IPO. One should be on a lookout to invest in an IPO, where the money invested by investors is going towards the expansion and the growth of the company by means of research, marketing etc. as this helps attract more investors.

- Another major suggestion before investing is to understand the lock-in period of an IPO better. When a company launches an IPO, there is a fixed span of time set by the company during which no investor can withdraw the amount invested in the IPO. The major reason this is so that the company could use the funds raised by the public for expansion, or any other venture that it proposed in its prospectus. Also if there were no lock in period, investors would have simply bought shares in an IPO, and would have sold the same off in a month or two, not giving the company enough capital to work with for its expansion/venture.

- Choosing a strong broker is also an important decision with respect to IPO launches. An underwriter for major companies is like a big investment bank. It helps understand the IPO better and takes necessary steps for its successful launch. These big banks usually keep an eye out for quality IPOs as they are thorough with their research. The smaller banks are generally not very selective about this and act for most IPO launches. Although it is another factor that these banks usually pick individuals that have been long term customers.

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