



A Study of Initial Public Offering (IPO) Underpricing in the Indian Stock Market

Aishwarya Bharat Ghosade¹, Dr. Vinod Sayankar²

¹Author, ²CO-author

MBA, Zeal Institute of Business Administration, Computer
Application & Research (ZIBACAR)

Abstract – This study examines the phenomenon of IPO underpricing in the Indian stock market and its implications for investors and issuing companies. IPO underpricing occurs when shares are offered at a price lower than their listing price, resulting in initial gains for investors. Despite regulatory oversight by the Securities and Exchange Board of India, underpricing persists due to factors such as information asymmetry, investor sentiment, and market conditions. The study highlights that IPOs listed on major exchanges like the National Stock Exchange of India and the Bombay Stock Exchange exhibit varying levels of underpricing influenced by demand, subscription levels, and company fundamentals. While underpricing enhances investor participation and provides short-term returns, it may reduce the capital raised by firms. The study concludes that an optimal pricing strategy is essential to balance the interests of investors and issuers while ensuring market efficiency.

Keywords – IPO, IPO Underpricing, Listing Gains, Indian Stock Market, Investor Behavior, Market Efficiency, Issue Price, Listing Price, Capital Raising, Securities and Exchange Board of India.

I. INTRODUCTION

Initial Public Offerings (IPOs) play a vital role in the development of the capital market by enabling companies to raise funds from the public and expand their business operations. In India, IPOs have gained significant importance with the growth of the financial markets and increasing participation of retail and institutional investors.

The regulatory framework established by the Securities and Exchange Board of India ensures transparency, investor protection, and proper disclosure during the IPO process.

One of the key aspects of IPOs is underpricing, which occurs when the issue price of shares is set lower than the listing price in the secondary market. This results in listing gains for investors and reflects the demand for the company's shares.

IPOs listed on major stock exchanges such as the National Stock Exchange of India and the Bombay Stock Exchange often exhibit varying degrees of underpricing depending on market conditions, investor sentiment, and company-specific factors.

The concept of IPO underpricing is widely studied in financial research as it provides insights into market efficiency, investor behavior, and pricing strategies adopted by companies.

While underpricing benefits investors through immediate returns, it may lead to a loss of potential capital for issuing firms. Therefore, understanding the causes and impact of IPO underpricing is essential for investors, companies, and regulators to make informed decisions and improve the functioning of the capital market

Kumar & Bansal (2019) conducted a study on IPO performance in the Indian stock market and found that most IPOs were underpriced, providing positive listing gains to investors. The study highlighted that market sentiment and investor demand play a significant role in determining underpricing levels.

Sharma & Singh (2020) examined the determinants of IPO underpricing using financial and non-financial variables. Their findings suggested that issue size, firm age, and subscription rate significantly influence IPO pricing, while macroeconomic conditions also impact investor behavior.

Khandelwal & Agarwal (2021) analyzed sector-wise IPO underpricing in India and observed that consumer-driven sectors experienced higher underpricing compared to capital-intensive industries. The study emphasized the importance of industry characteristics in IPO performance.

Sahoo & Rajib (2021) focused on pricing efficiency in Indian IPOs and found that information asymmetry between investors and issuers leads to deliberate underpricing. The study also highlighted the role of institutional investors in reducing pricing inefficiencies.

Pandey & Debata (2022) studied post-listing performance of IPOs and concluded that although IPOs generate short-term gains due to underpricing, their long-term performance may not always remain consistent, indicating market correction over time.

Monikar (2023) analyzed recent IPO trends in India and found that market conditions, investor sentiment, and oversubscription levels significantly affect listing gains. The study concluded that bullish market phases lead to higher underpricing.

II. LITERATURE REVIEW



III. OBJECTIVE

1. To study the role of regulations in IPO pricing
2. To understand the concept of Initial Public Offering (IPO)
3. To identify the factors affecting IPO underpricing
4. To examine the returns earned by investors on the listing day
5. To measure the level of IPO underpricing in the Indian stock market

HYPOTHESES

Hypothesis 1

H0: Market conditions (such as market sentiment and demand) do not have a significant impact on IPO underpricing.

H1: Market conditions (such as market sentiment and demand) have a significant impact on IPO underpricing.

Hypothesis 2

H0: Company-related factors (such as size, age, and financial performance) do not significantly influence IPO underpricing.

H1: Company-related factors (such as size, age, and financial performance) significantly influence IPO underpricing.

Hypothesis 3

H0: There is no significant difference between IPO issue price and listing price in the Indian stock market.

H1: There is a significant difference between IPO issue price and listing price in the Indian stock market.

Data Collection

Primary Data

Primary data is collected directly from investors who participate in IPO investments. A structured questionnaire with close-ended questions is used to gather information about investor awareness, investment decisions, listing gains, and opinions regarding IPO pricing. The questionnaire may be distributed through online forms or direct interaction with respondents.

Secondary Data

Secondary data is collected from books, research journals, financial websites, IPO prospectuses, stock exchange reports, and official publications issued by regulatory authorities such as the Securities and Exchange Board of India. Data from stock exchanges like the National Stock Exchange of India and the Bombay Stock Exchange is also used for analysis.

Sample Size and Sampling Technique

From the total population, a sample of 100 respondents is selected using the convenience sampling method. The sample includes individuals who have knowledge about IPOs or have participated in IPO investments.

The respondents are selected from different demographic categories, such as students, salaried employees, businesspersons, and other investors, to ensure diversity in responses. The selected respondents provide relevant data to analyze investor opinions and the level of IPO underpricing in the Indian stock market.

Tools and Techniques for Analysis

The study uses simple statistical tools for analyzing IPO underpricing. Percentage analysis and tabular presentation are used to organize and interpret the data. Pie charts are used to show the proportion of responses and distribution of IPO-related factors. The analysis is carried out using Microsoft Excel, based on IPO data from the National Stock Exchange of India and the Bombay Stock Exchange.

Graphical Representation

IPO underpricing impacts listing gains

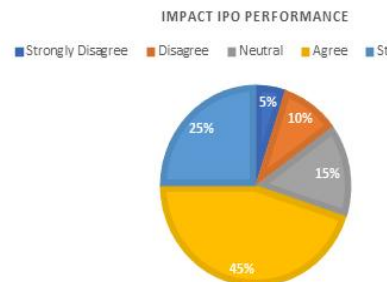
Option	Responses	Percentage
Strongly Disagree	5	5%
Disagree	10	10%
Neutral	20	20%
Agree	40	40%
Strongly Agree	25	25%

Interpretation

The majority of respondents (65%) agree or strongly agree that IPO underpricing impacts listing gains. This indicates that most investors believe underpricing plays a significant role in generating initial returns. Only a small percentage (15%) disagree, while 20% remain neutral, showing overall strong support for the relationship.

Market conditions impact IPO performance

Option	Responses	Percentage
Strongly Disagree	5	5%
Disagree	10	10%
Neutral	15	15%
Agree	45	45%
Strongly Agree	25	25%



Interpretation



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A large majority of respondents (70%) agree or strongly agree that market conditions affect IPO performance. This shows that investors consider market trends an important factor in determining IPO success. Only 15% disagree, while 15% are neutral, indicating a strong belief in the influence of market conditions.

IV. FINDINGS

The findings of the study indicate that a majority of respondents believe IPO underpricing has a significant impact on listing gains, as most investors agree that underpriced IPOs provide better initial returns on the listing day. It is also observed that market conditions play a crucial role in determining IPO performance, with a large number of respondents stating that favorable market trends lead to higher listing gains.

The study highlights that both pricing strategy and market timing are important factors influencing the success of IPOs. Only a small percentage of respondents disagree with these views, showing overall strong agreement with the hypotheses. Therefore, the findings confirm that IPO underpricing exists in the Indian stock market and significantly affects investor decisions and listing performance.

Suggestions

- Investors should not rely only on listing gains and must analyze company fundamentals before investing.
- Market conditions should be considered before applying for IPOs.
- Diversification of investments is recommended to reduce risk.
- Companies should adopt fair pricing and maintain transparency in disclosures.
- Regulatory bodies like the Securities and Exchange Board of India should ensure fair practices.
- Investors should avoid speculation and focus on long-term value.
- Stock exchanges such as the National Stock Exchange of India and the Bombay Stock Exchange should provide timely information.
- Overall, a balanced approach can improve IPO market efficiency.

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