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An Empirical Analysis of IPOS- In Context to NSE

Deepika[1], Dr. Manpreet Kaur[2], Dr. Sunil Kumar Arora[3], Smiksha Mahajan[4]

[1]Student, St. Soldier College
[2]Head of Department, St. Soldier College
[3]Principal, St. Soldier College
[4]Assistant Professor, St. Soldier College

ABSTRACT

Initial Public Offerings (IPO) are a popular way that the firms adopt in order to raise finance in India. While IPO offer appreciable returns on the listing day, their long-term performance is generally poor. The performance of these IPO fluctuates over a period and investors, in the past, have incurred huge losses by investing in them. Under this particular study, the long-term price performance of 109 IPO released over the period of 2010-2014 by way of market abnormal excess returns (MAER) was done to identify the factors which govern their performance and for short run performance 206 IPOwere identified from the period 2010-2018. The research concludes that in short run, issue size and issue price are highly correlated however we did not find any factors that would have a significant impact on the short run return whereas in long run listing day price and short MAER are highly correlated; times subscribed was found to be positively correlated with long MAER and this is the only factor that had a significant impact on its performance.

Key words: Initial Public Offerings, Market Abnormal Excess Returns, Performance, Returns, Listing Price.

INTRODUCTION

Initial Public Offering is a Methodology where once company ,which is not listed, offers new stocks and offers them to the public. Before an IPO, an organization is considered as private – with very few promoters, restricted to licensed financial specialists. Earlier the provision was that it had to be announced 5 working days before the issue of IPO and also the financial disclosure requirement has been reduced to three years from the earlier requirement of five years. As per a recent announcement made by SEBI, the price band of an IPO can be announced at least 2 working days before the launch of the IPO. The audited consolidated financial disclosures are to be disclosed in the offer document, whereas the standalone financials of the company and the subsidiaries would be disclosed on the company website. Nearly all companies that have gone public since 2016 are trading significantly above their IPO listing prices. It has been noted that investors' appetite for the IPO will continue, since its performance has been above average for the last few years. It has been seen that,in the long run, the fluctuation of stock returns is high, and investors are gaining more in the short run. There are many factors that could result in such under-pricing and overpricing of stocks, but there is a need to identify those factors that have a significant effect on pricing.

REVIEW OF LITERATURE

Technological companies have higher first-day returns as compare to other and the age of the firm, the return of the sector index, and the part of the year the IPO is made affect the performance and first-day returns of IPOs (Fahlén , M., ,2018). All the independent variables, including issue size, issue price, and subscription duration, do not have any major impact on IPO performance; and, industry-wise, it was found that infrastructure industries give better returns on the listing day (Dam, et al., 2017). There is a strong relation between the asset base and the performance of IPOs, and the least relation between profitability and IPO performance (MUSHTAQ, K. A. ,2017). P/E variable had the highest impact on IPO prices (Bateni, L., and Asghari, F., ,2016). There was a negative relation between failure and BHAR (buy and hold abnormal return (Harvey, F. N. 2016). By analyzing stock returns performance evaluations, it is observed that there is no critical proof for the underperformance of IPOs. Moreover, research having a base of the accounting parameters indicated the improvement in performance after listing. (Ghosh, S. 2014). Under normal market conditions, IPOs were overperformed, and under growth, crisis, and recovery market conditions, they was under performed however, it was severe during recovery and crisis market then growth market conditions. (Ganesamoorthy, L., and Shankar, H., ,2012). All of the matched firm methods of abnormal performance are the best specified and powerful

methods. Secondly, IPOs have generated significant abnormal performance in all of the tests, which is in conflict with the theory of market efficiency (Smith, Z. A. ,2008). Venture Capitalist affiliated IPOs have low underpricing as compare to the IPOs which are non-affiliated. Similarly, VC affiliated IPOs show the more earnings and market performance at higher side at year end. In the result they have indicated that VC affiliated IPOs have a higher side abnormal return in long term than non-affiliated (Chahine, S., and Filatotchev, I. 2008). Listing delay, age of firm and how many times the issue is subscribed are the important determinants for the IPOs in the India stock market (Sehgal, Singh,2008). the average underpricing as 35.66% and also the underpricing level for the IPOs is determined by offer size, market capitalization and other variables. (Sohail, Nasir,2007). risk of failure is not only priced to the IPOs as of offering date however it assumes a significant job in the IPOs long run performance (Demers, Joos,2007).

RESEARCH METHODOLOGY

Research Design

For collecting and analyzing the variables measures which we have identified in our research problem some of the set procedures and methods are used which we called research design. It is kind of framework that has been used to answer the research questions. There are many ways of research design, including experimental, descriptive, correlational, etc.; however, in our research, to find out the factors affecting the performance of IPO we are going to use exploratory research.

Need of the Study

Investors invest in IPOs to generate gains on the listing day or to keep the shares for the long term. While some IPOs generate good returns on the listing day,it has been seen that, in the long term, their performance has been below average. The present study deals with analysing those factors and determining to what extent they affect the performance of the IPOs.

Objectives of the Study

1. To analyze the factors affecting the performance of IPOs listed in NSE.
2. To study the relationship between the factors affecting IPO performance.

Sampling Design

Non-random sampling and convenience sampling are used for analysing the performance of IPO.

(A). Data for Long Run Performance

Table1: Year-Wise IPO Distribution

Year	Number of IPOs released	Number of IPOs considered	IPOs withdrawn
2010	66	58	2
2011	40	31	3
2012	13	10	2
2013	5	4	2
2014	7	6	2

Source: www.nseindia.com, www.chittorgarh.com, www.moneycontrol.com

(B). Data for Short Run Performance

Table2: Year-Wise IPO Distribution

Year	Number of IPOs released	Number of IPOs considered	IPOs withdrawn
2010	66	58	2
2011	40	31	3
2012	13	10	2
2013	5	4	2
2014	7	6	2
2015	21	21	0
2016	27	25	1
2017	38	34	0
2018	25	17	1

Source: www.nseindia.com, www.chittorgarh.com, www.moneycontrol.com

Statistical Tools
Regression is applied using SPSS and Microsoft Excel.

IPOs Long-Term Performance
To assess the performance over the long term, IPO over a period of 36 months (3 years) have been taken. Raw return is calculated by taking into account the raw returns of the stock for 36 months and adjusting for market performance against the NIFTY index.

IPOs Short-Term Performance
To assess the short-run performance of IPOs, the listing price has been considered. Raw return is calculated on the basis of the return generated on the day of listing.

Factors Affecting Performance of IPOs

Long Term	Short Term
Listing Day Price	Issue Size
Firm's age	Issue Price
Subscription Time	Subscription Time
Short MAER	

ANALYSIS

(A) . Short Run Performance of IPOs:
For analyzing the results, correlation and regression have been applied, where issue price, issue size, and subscription duration have been selected as independent variables, so as to determine to what extent it influenced the listing day returns. Also, correlation has been used to establish the degree to which these factors are dependent on MAER on the listing day.

After establishing the relationship between the dependent and independent variables,there is a need to study and analyze the impact of each independent variable (subscription duration, issue price, and issue size) on the dependent variable (short MAER). Through the regression table 5, the beta value of unstandardized coefficients for the constant, issue price, issue size, and subscription duration. Beta value for the issue price is -0.027 which is slightly negative, and for the subscription duration beta value is -5.836 which shows negative correlation significance. However, for the issue size, it is slightly positive at 0.014. These values tell the magnitude of the impact of independent variables on the dependent variable. As shown in the below table P value (Sig.) is greater than the significance level of 0.05, which means these values are not within the acceptance level; therefore, none of them would impact the short-term performance (initial day returns of the IPOs).

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	49.887	57.088		.874	.383
Issue_price	-.027	.060	-.033	-.453	.651
Subscription_duration	-5.836	12.083	-.034	-.483	.630
Issue_size	.014	.010	.096	1.330	.185

(B) . Long-run performance of IPOs:
This study considers the long-term performance of IPOs for the period 2010-2014. To check the long-term performance, we have used a time period of 36 months to determine the performance of IPOs after 3 years.

The relationship between the dependent variable, which is Long MAER, and all the independent variables. For that value of B and the constant alpha are used. The the interpretation. Constant value is negative, as -53.33 and the listing day price also reflects a negative relationship as -0.050. However, the age of the firm shows as 0.445, short MAER is reflecting as 0.147 and times subscribed is reflecting a positive relationship as 1.062 which is considered the highest among the others. As the confidence level is taken as 0.05 therefore the sig. value (P value) in the case of times subscribed is 0.026 which is less than 0.05 this means it carries a statistically significant coefficient value. Also, based on the correlation, subscribed time has a strong correlation with Long MAER as compared to other independent

variables. R square values are also used to interpret the relationship between the variables. Subscribed time has the highest R-squared value, which also shows that times subscribed is likely to impact the long-run performance of the IPOs. From this, it can be analyzed that times subscribed is one of the important factors that can affect the long-term performance of IPOs, as it shows a strong positive correlation, the highest R-squaredvalue, and a significant p value; the also significant and magnitude of the coefficient is also high compared to other variables.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-53.333	13.167		-4.051	.000
Listing_day_price	-.050	.034	-.637	-1.501	.136
Ageof_firm	.445	.381	.113	1.169	.245
Times_subscribed	1.062	.469	.225	2.265	.026
Short_MAER	.147	.104	.596	1.411	.161

FINDINGS

Long Term Performance

1. There is no significant relationship between long-term MAER and the listing day price. is accepted as it was found that the MAER has a significant relationship with times subscribed.
2. There is no significant relationship between long-term MAER and the age of the firm before IPO,as it was found by applying correlation and regression that it does not come under the acceptance level of 0.05.
3. There is no significant relationship between long-term MAER and times subscribed; is rejected because the study shows that it has a significant relationship, with its p value being 0.026 which is less than 0.05.
4. There is no significant relationship between long term MAER and short term MAER. The IPO is also accepted as it does not fall below the acceptance level of 0.05

Short-Term Performance

1. There is no significant relationship between the short-term MAER and issue size.
2. There is no significant relationship between short-term MAER and issue price.
3. There is no significant relationship between short-term MAER and subscription duration.
4. In short-term performance, the variables or factors do not fall under the acceptance level of 0.05. This means that there is no relationship between the dependent and the independent variable; in other words,issue size, issue price, and subscription duration do not affect MAER.

CONCLUSION

In the short-run performance analysis, the average return is 29.67 through the descriptive statistics and by correlation and regression. The issue price and issue size are the two independent factors that are strongly correlated with each other. It is concluded that, in the short run, none of the factors identified had a significant impact on the short-run performance of IPOs in India. Whereas, in the long run, the average return is (-38.70) which is negative. This that, in the long run, the returns are negative and that the performance of IPOs fluctuates the longer they stay in the market. Apart from these variables, times subscribed is the variable that has a good positive correlation with long-term MAER. Also, the beta value and the R square value for times subscribed are high compared to other variables, and well as it also fall under the acceptance level of 0.05. So, to conclude,in the long run, times subscribed is a factor that can impact or influence the long-run performance of IPOs in India.

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