A STUDY ON INVESTORS PERCEPTION TOWARDS INITIAL PUBLIC OFFERING IN MUMBAI

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ABSTRACT
Initial Public Offering is the most phenomenal event for an organization. For any company, “being public” is just as important as “going public.” IPOs are normally issued by small and new companies who are in need of capital to expand their business, but sometimes large companies also issue them for public trading. Going public is a very big decision for any company. It permanently changes the way company does business. A public company has more sources of capital than a private company. But going public or offering an IPO is a very tedious and time consuming process for any company.

Whenever a firm needs money, the first thing it does is, it goes to the bank. However sometimes banks may not be in a position to provide huge sum of money for a long time. In such a scenario the best way to raise money is through offer of shares. It is the first sale of stock or securities by a company to the public.

Sourcing money through IPO is a very tedious process. It requires a huge analysis and implementation of numerous commercial laws applicable to public offerings e.g. Companies Act, FEMA, Income Tax Act, Securities Contract Act and SEBI Guidelines on “Disclosure and Investor Protection”.

Therefore to understand this complex subject, this study is conducted. IPOs can be a risky investment. For any individual investor, it is difficult to predict, how the stocks will perform, on their initial days of trading and in near future as there is little or no historical data available to analyze the company or firm.

Keywords: Initial Public Offering; FEMA; SEBI

INTRODUCTION
IPO or Initial Public Offer is a way for a company to raise money from investors for its future projects and get listed to Stock Exchange. Or An Initial Public Offer (IPO) is the selling of securities to the public in the primary stock market.

Definition of IPO:
The securities which the companies issue for the first time to the public either after incorporation or on conversion from private to public company is called “INITIAL PUBLIC OFFERING” or ‘IPO’. Company raising money through IPO is also called as ‘Company Going Public.’
Reasons for Going Public

- To raise funds for financing capital expenditure needs like expansion diversification etc.
- To finance increased working capital requirement
- As an exit route for existing investors
- For debt financing.

Advantages of Going Public:

**Stock Holders diversification:** As a company grows and becomes more valuable, its founders often have most of its wealth tied up in the company. By selling some of their stock in a public offering, the founders can diversify their holdings and thereby reduce somewhat the risk of their personal portfolios.

**Easier to raise new capital:** If a privately held company wants to raise capital a sale of a new stock, it must either go to its existing shareholders or shop around for other investors. This can often be a difficult and sometimes impossible process. By going public it becomes easier to find new investors for the business.

**Enhances liquidity:** The stock of a closely held firm is not liquid. If one of the holders wants to sell some of his shares, it is hard to find potential buyers—especially if the sum involved is large. Even if a buyer is located there is no established price at which to complete the transaction. These problems are easily overcome in a publicly owned company.

**Establishes value for the firm:** This can be very useful in attracting key employees with stock options because the underlying stock have a market value and a market for them to be traded that allows for liquidity for them.

**Image:** The reputation and visibility of the company increases. It helps to increase company and personal prestige.

**Other Advantages:** Like additional incentive for employees in the form of the company's stocks. This also helps to attract potential employees. It commands better valuation of the company. Better situated for making acquisitions.

Disadvantages of Going Public:

**Cost of Reporting:** A publicly owned company must file quarterly reports with the Securities and exchange Board of India. These reports can be costly especially for small firms.

**Disclosure:** Management may not like the idea or reporting operating data, because such data will then be available to competitors.

**Self dealings:** The owner's managers of closely held companies have many opportunities for self-transactions, although legal they may not want to disclose to the public.

**Inactive market low price:** If a firm is very small and its and its shares are not traded frequently, then its stock will not really be liquid and the market price may not be truly representative of the stock's value.

**Control:** Owning less than 50% of the shares could lead to a loss of control in the management.

**Other disadvantages:** The profit earned by the company should be shared with its investors in the form of dividend. It is a costly affair around 15-20% of the amount realized is spent on raising the same and also substantial amount of time and effort has to be investing for going public.

Opportunities to Investors and Company:

From an investor point of view, IPO gives a chance to buy shares of a company, directly from the company at the price of their choice (In book build IPO's). Many a times there is a big difference
between the price at which companies decides for its shares and the price on which investor are willing to buy share and that gives a good listing gain for shares allocated to the investor in IPO.

From a company prospective, IPO help them to identify their real value which is decided by millions of investor once their shares are listed in stock exchanges. IPO's also provide funds for their future growth or for paying their previous borrowing.

**What is primary & secondary market?**

**Primary market** is the market where shares are offered to investors by the issuer company to raise their capital.

**Secondary market** is the market where stocks are traded after they are initially offered to the investor in primary market (IPO's etc.) and get listed to stock exchange. Secondary market comprises of equity markets and the debt markets. Secondary market is a platform to trade listed equities, while Primary market is the way for companies to enter in to secondary market.

**Who decides the Price Band?**

Company with help of lead managers (merchant bankers or syndicate members) decides the price or price band of an IPO.

SEBI, the regulatory authority in India or Stock Exchanges do not play any role in fixing the price of a public issue. SEBI just validate the content of the IPO prospectus.

Companies and lead managers do lots of market research and road shows before they decide the appropriate price for the IPO. Companies carry a high risk of IPO failure if they ask for higher premium. Many a time investors do not like the company or the issue price and doesn't apply for it, resulting unsubscribe or undersubscribed issue. In this case companies' either revises the issue price or suspends the IPO.

**Who decides the date of the issue?**

Once ‘Draft Prospectus' of an IPO is cleared by SEBI and approved by Stock Exchanges then it's up to company going public to finalize the date and duration of an IPO. Company consult with the Lead Managers, Registrar of the issue and Stock Exchanges before decides the date.

**Role of registrar of an IPO:**

Registrar of a public issue is a prime body in processing IPO's. They are independent financial institution registered with SEBI and stock exchanges. They are appointed by the company going public.

Responsibility of a registrar for an IPO is mainly involves processing of IPO applications, allocate shares to applicants based on SEBI guidelines, process refunds through ECS or cheque and transfer allocated shares to investors Demat accounts.

**Role of Lead Managers in an IPO**

Lead managers are independent financial institution appointed by the company going public. Companies appoint more than one lead manager to manage big IPO's. They are known as Book Running Lead Manager and Co Book Running Lead Managers.

Their main responsibilities are to initiate the IPO processing, help company in road shows, creating draft offer document and get it approve by SEBI and stock exchanges and helping company to list shares at stock market.

**LITERATURE REVIEW**

The published work relating to the topic is reviewed. The relevant literature is reviewed on the basis of Books, Periodicals, News Papers and Websites. The detailed review is given below:
Arwah Arjun Mamdan (2003), in his research work mentioned that once IPO’s are listed, after 5 years, there is a drastic fall in their returns.

Anand Adhikari (2010), pointed out that those companies which have unique business models in 2009-2010, have made their investors reach.

Mahesh Nayak, (2010) in his article, point out that, IPOs have grown in size and entered their own brave new world. Further he states that raising money in India’s booming economy cannot be a onetime affair; if a company does not maintain a good relationships with investors and rewards them well it may not able to go back to them when it want to raise money later.

Jagannadham Thunuguntla (2011) in his research , pointed out that, the age old philosophy of understanding the company and sticking to the basics should be given due respect. Let the buyer be made aware that the investor has to put a price tag to his hard earned money. There is a dire need for investor education and awareness and the connections should be on a stable income than a becoming rich overnight.

Jignesh B. Shahet et al. (2013) in their research, concluded that, the recent IPO Scam indicates that even a highly automated system will not prevent malpractices. But steps should be taken by SEBI to restrict such IPO Scam by applying know your customer (KYC) and unique identification number to market players and investors.

Madhumita Gosh, Vice President (PM & Research) Unicon Financial Intermediaries in her article “IPOs: More Misses Than Hits”, published in the Dalal Street Investment Journal, pointed out that, in the recent past a majority of IPOs haven’t performed well because valuation wise they are priced more than the fundamentals. This has happened mainly due to the greed of promoters, who want to price their issue invariably at a much higher price. In such cases merchant bankers’ role also comes under scanner as they usually don’t give proper advice to the promoters in the wake of losing the business.

Prithvi Haldea, CMD, Prime Database in his article “IPOs: More Misses Than Hits”, published in the Dalal Street Investment Journal pointed out that, IPOs in India have become an instrument of trading rather than investment and a majority of people are parking their money into such IPOs just to make a fast buck at the time of listing. So, in my view, they are not the investors who are investing money as per the valuations of the company by taking a long term horizon.

Sunil Damania in his article “Primary Issues” published in Dalal Street, mention that, the primary market has been always been a great area of interest for retail investors. But over the last few years the quality of IPOs and their issue prices have been a matter of concern. Due to this investors are losing faith in the IPO system and this is a very dangerous sign for the country. For any new investor to enter the market, the primary market is the first step. If that first experience of investment is not a happy one, it is unlikely that investors would continue investing in the market.

**RESEARCH AIM**

The aim of this research is to empirically investigate the perception of Indian investors towards IPO.

**RESEARCH OBJECTIVES**

1. To find out the level of awareness about IPO in the investors.
2. To find out investors confidence level and their preference while investing money (whether investors feel that they can make money in the stock market?).
3. To analyze and evaluate the complex IPO process and study and incorporate the legal requirements of an IPO, SEBI Norms and Guidelines
RESEARCH QUESTIONS

1. Do retail investor feel IPOs are more risky than other investment option?
2. Do recent scam in IPO affect the investors’ confidence on SEBI and IPO?
3. Is there enough awareness among middle income group people regarding IPO?
4. Do investors and companies find IPO procedure and SEBI’s rules and regulation is complex?

HYPOTHESES

The main purpose of this study is to find out how these IPO provide opportunities to Investors as well as Companies. To be able to fulfill the purpose of this research we find it appropriate to test the perception of investors towards IPO. This led into generating the following hypotheses to test accordingly:

Hypothesis 1: IPO’s is a risky investment.

Hypothesis 2: The retail investors’ greatest worry is too much price volatility, price manipulation and corporate fraud which shaken confidence of the investors.

RESEARCH METHODOLOGY OF STUDY

Data Source: This report is based on primary as well as secondary data. The study aims at finding out the attitude of the investors towards IPO in Mumbai. Questionnaire is used to collect the primary data. The secondary data were collected from various journals, libraries and books.

Duration of Study: The study was carried out for a period of one month, from 10th February 2013 to 9th March, 2013.

Sampling procedure: By adopting convenience sampling, approximately 100 respondents were selected for this study. The essential data were collected with the help of questionnaire. The sample was selected of them who are the traders, brokers and individual investors. It was collected through filling up the questionnaire prepared. The data has been analyzed by using Statistical tool.

Sample size: The sample size of our project is limited to 103 people only. Out of which only 95 people had invested in IPO. Other 8 people had not invested in IPO.

Sample design: Data has been presented with the help of bar graph, pie charts, line graphs etc.

LIMITATION OF THE STUDY

- Some of the persons were not so responsive. Respondents may not be prepared to contribute to the research due to lack of time and resources required.
- Possibility of error in data collection because many of investors may have not given actual answers of questionnaire.
- Sample size is limited to 100 investors.
- Some respondents were reluctant to divulge personal information which can affect the validity of all responses.
- The research is confined only to the city Mumbai.

Profile of Sample

This chapter provides the profile of sample like age, gender, Income etc. The sample was selected of them who are the traders, brokers and individual investors. The sample size of our project is limited to 103 people only.

Most of the respondents belong to the age group of 25-34, followed by 35-44, and 20-24 and 45 - Above. This shows that Age group of 25 to 34 are highly invest in capital market and IPO.
From the total respondents’ 78% were males and 22% were females. We can see that the number of males is more compared to that of the number of females. This clearly talks about the interests of the female population in investments.

**Figure 1:** Distribution on the basis of Occupation

The above mainly talks about the various occupational details of various respondents who participated in the survey. We can see that the maximum number of respondents were Employed followed by Self employed, students and Part time workers and Retired persons. This clearly shows us that the maximum numbers of people who are interested in investment activities are employed persons; they have the panache for investment activities. They are nearly 68% of the sample. The interesting factor is that the employed persons are very much interested in investment activities which are a very good sign.

**Figure 2:** Profile of Investors on the basis of Income

The income level of various respondents is depicted in the above chart. We can see that the maximum number of people fall in the category of 2, 00,000 to 5, 00,000 lakhs followed by the people falling Up to 2, 00,000 lakhs category. There are comparatively less people in the 5, 00,000 to 10, 00,000 category and very few people in the more than 10, 00,000 category. This shows that the investors fall in both high income and low income categories. These are those people who are interested in investing in IPOs.

**ANALYSIS AND FINDING**

This chapter provides results obtained from the survey, which have been examined and evaluated through data analysis techniques. Findings are subjected to hypotheses testing. This chapter evaluates perception of Indian Investor’s towards the IPO.

**Question 1: Do you invest in IPO?**

**Figure 3:** No. of Investors who invest in IPO
Data Interpretation: This chart mainly talks about the respondents’ interest in investing in Initial Public Offers. Out of 103 people surveyed it is seen that 92% of the people are investing in IPOs whereas just 8% of the people are not investing in IPO. This shows that IPO is considered as a good option for investment by most of the respondents.

Question 2: Reasons for not investing in IPO

![Reason for not Investing in IPO](image)

Data Interpretation: Figure 4 is clearly shows that 50% of people who don’t invest in IPOs are due to lack of awareness and knowledge. And second most important reason is risk factor and recent scam which are associated with IPO. Also delay in getting returns is also one of the factors.

Question 3: How much do you invest in IPO per year?

![How much do you invest in IPO per year](image)

Data Interpretation: When the investors were asked to how much they invest in an IPO, we found that maximum number of the people invest somewhere between 10,000 to Rs 50,000 in an IPO that is 46% and followed by people who invest less than Rs 10,000 in an IPO that is 42%. There were very few people who invest in IPO for an amount more than Rs 50,000 and Rs 1,00,000.

Question 4: How long you have been trading in Stocks and IPO? It is found that most of the investors are trading in the primary and the secondary market since last 2 years and not more. Their number stands to be at 48% followed by 40% people who are trading in these markets more than 2 years but less than 5 years and there are just 12% of the people who are dealing in these markets since 5 to 10 years.
Question 5: What do you see before investing in IPO?

![Image of pie chart showing factors influencing investor's perception]

**Data Interpretation:** Figure 6 talks mainly about the various factors that should be considered before investing in an IPO. Out of total samples taken, 43% of the people believe that one should consider performance of existing company whereas 34% believe that sector performance needs to be considered compared to others, 12% believe that Premium Amount should be considered compared to others and the rest 11% feel that the promoters are the most important factor for taking a decision in the investment of IPO.

Question 6: How do you come to know about the new IPO listing?

![Image of pie chart showing source of information]

**Data Interpretation:** Figure 7 mainly talks about the source of information for IPO investors. It is clearly seen that the Brokers stands first as the main source of information that is 39% of sample size followed by the Newspapers (that is 22% of sample) through Televisions (that is 20% of sample) and Friend’s advice(that is 18% of sample). The point to be noted is that people do prefer friend’s advice before investing in IPO. The main source of information regarding an IPO comes mainly from the Brokers advice and the Newspapers rather than the other forms of media.

Question 7: What is the purpose of IPO investment from Investor's perceptive?

![Image of pie chart showing purpose of investment]

**Data Interpretation:** Figure 8 talks mainly about the purpose of IPO investment from Investor's perspective. Out of total samples taken, 53% of the people believe that Long Term Gain is the main purpose whereas 47% believe that Listing Gain is the main purpose.
**Data Interpretation:** Figure 08 talks that the respondents invest in an IPO for the purpose of obtaining the listing gains that is 53% and the long term gains that is 47%. This clearly shows us that more no of people invest in IPO to earn profit at the time of listing and they are not the long term investors.

**Question 8: How much percentage have you gained from IPO?**

![Figure 08: How much percentage have you gained from IPO?](image)

**Data Interpretation:** Figure 09 mainly talks about the returns that the investors have received by investing in an IPO. We can see that most of the investors have received Up to 10% of returns that is 56% of sample size. And there are also people who received 10% to 20% returns that are 32% of sample size and very few people received above 20% returns and that are 3% of sample as well. As figure shows there few people haven’t got the returns on their investment that is 9% of sample size. Hence we can say that IPO would be the good option for investment which gives you around 10% to 20% returns on your investment.

**Question 9: What do you feel about the procedure of IPO’s?**

![Figure 10: Investors perception towards Procedure of IPO](image)

**Data Interpretation:** Respondents’ feeling about the IPO procedure is discussed in the above figure 14. It has been observed that 41% of the respondents are of the opinion that the IPO listing procedure is complicated. 24% of the respondents feel it is difficult where 21% of the people feel that it is easy and 14% of the people feel that it is lengthy. The overall opinion of the respondents is that the IPO procedure is complicated and difficult.
Question 10: What difficulties did you face after applying for IPOs?

![Figure 11: Difficulties faced by Investors](image)

**Data Interpretation:** Figure 11 mainly talks about the problems faced by the investors after applying for IPOs. We can see that 36% of the respondents have faced problem Delay in crediting allotted of shares where as 23% of the people have the problem with Refund and 22% faced problem of No clarity in allotment where as 19% respondents do not get any problem after applying for IPOs.

**Factors consider for IPO**

**List of factors consider for IPO**

![Factors considered for IPO](image)

**Data Interpretation:** The above chart mainly talks about the various factors that are considered by the investors while investing in an IPO. After a clear observation of the data presented above, we see that the Goodwill of the Company, Market share of the company and Current Financial Position are the Very Highly and Highly considered factors for investment in IPO. The least considered factors stand out to be Corporate Profile and Size of the IPO issued etc. It is also to be noted that the comments that are being passed in the media and Broker’s advice do affect the investor’s sentiment towards IPO investment. Overall, all the factors are taken in to consideration before making any investment in the IPO. So a company has to mainly focus on market share of the company and also its goodwill in the market.

**CONCLUSION**

1. After making the project, we would like to conclude that IPO is no more risky investment as SEBI is playing very important role in regulating the risk and financial aspects of the investors. As per our finding IPOs gives returns up to 10% to 20% to 88 of total investors hence IPO can be consider good option for investment.

2. Therefore, we reject the null hypothesis 1 and conclude that IPO is not a risky investment with the help of careful research and study and with the help of broker advice the individual
investor can predict what the stock or shares will do on its initial day of trading up to some extent.

3. Also this project report has proven that large no of investors have shown confidence in IPO and prefer to invest in IPO and according to them IPO is one of the good option for Investment.

4. Therefore, we reject our second null hypothesis and conclude that despite of too much price volatility, price manipulation and corporate fraud investors still have confidence in this investment tools.

RECOMMENDATION

The research clearly indicates that there is still need of improvement in primary market in terms of awareness and procedure. The detail recommendation can be given specific head.

Recommendation to Company:

We would like to give recommendation to company who are going launch their IPO’s in recent future are:

1. Around 39% people came to know about IPO through their brokers and hence Company should maintain good relationship with brokers and also create faith in them about their organization.

2. Factors like Goodwill of the Company, Market share of the Company, Broker’s advice and comment in media are highly considered before investing in IPO hence companies should focus on this factor more. Also they have to use media as an important tool to create good image in the mind of investors since it is one of the highly considered factor.

Recommendation to Government and SEBI:

We would like to give recommendation to Government and SEBI in order to attract more investors towards capital market:

1. As per our finding around 9% of total investors end up losing the money invested due lack of understanding and awareness. Hence we would like to recommend that “Investor Awareness Program” should be conducted which can help such investors to made their investments on safer side and have maximum returns at lowest possible risk.

2. As per our finding around 79% of the total investors find IPO procedure more difficult, lengthy and complicated hence SEBI should take necessary action to make it more investors friendly and also provide guidance to new investor while applying for in IPO.

3. Investors have also faced lot of problems like refund problem, delay in crediting allotted shares and no clarity of shares. SEBI take strict actions in order to solve problems of Investors.

REFERENCES


