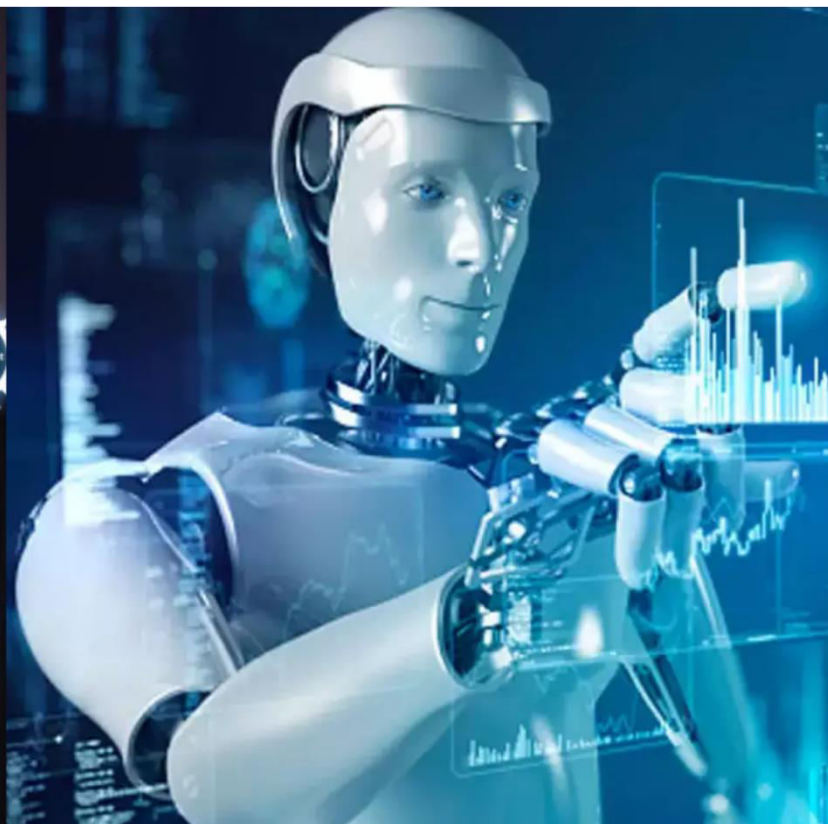




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Performance of IPOs in Indian Stock Market

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ABSTRACT: This study examines the performance of Initial Public Offerings (IPOs) in the Indian stock market to evaluate their short-term and long-term returns, underpricing trends, and postlisting behavior. The research aims to understand how factors such as issue price, market sentiment, firm size, and subscription rates influence IPO performance. Using a sample of IPOs listed on the NSE and BSE from 2018 to 2024, the study applies quantitative analysis through regression and correlation models. The findings reveal that IPOs in India are generally underpriced, resulting in significant listing gains in the short term; however, their long-term performance tends to decline as market corrections set in. Additionally, oversubscription and investor sentiment significantly affect listing-day returns, while firm fundamentals play a crucial role in sustaining long-term value. The study concludes that while IPOs remain attractive for short-term investors seeking quick gains, informed decision-making and financial awareness are essential for sustainable investment outcomes in the Indian equity market.

KEYWORDS: : Initial Public Offerings (IPOs), Indian Stock Market, Post-Issue Performance, Market Efficiency, Underpricing, Listing Gains, Investor Sentiment, Long-Term Returns, Financial Performance, Market Volatility, NSE, BSE, Equity Market, Valuation, Investor Behavior

I. INTRODUCTION

The Indian capital market has witnessed remarkable growth in recent years, driven by increased investor participation, technological advancements, and regulatory reforms. Among various investment avenues, Initial Public Offerings (IPOs) have emerged as a critical mechanism for companies to raise equity capital and for investors to gain early access to promising firms. IPOs serve as a bridge between private ownership and public participation, offering firms an opportunity to expand, diversify, and strengthen their market position. However, despite their popularity, the performance of IPOs in the Indian stock market continues to generate significant debate due to inconsistent post-listing outcomes and fluctuating market sentiments.

In India, the IPO market has experienced phases of rapid expansion, particularly during bullish market periods such as 2017–2021, when investor enthusiasm and liquidity drove record-breaking subscriptions. Nevertheless, a recurring phenomenon known as IPO underpricing—where shares are issued below their true market value—continues to dominate the discussion. While underpricing often results in substantial listing gains for investors, it simultaneously raises questions about market efficiency, valuation accuracy, and long-term sustainability. Over time, many IPOs exhibit declining post-issue performance, suggesting that initial enthusiasm may not always align with fundamental value.

The performance of IPOs is influenced by multiple factors, including issue size, promoter reputation, subscription rate, investor sentiment, market conditions, and regulatory oversight. Behavioral biases and speculative tendencies further shape investor decisions, leading to volatility in short-term performance. Although several studies have explored IPO valuation and pricing mechanisms, there remains limited empirical evidence on the long-term performance of Indian IPOs in comparison to their short-term returns. This study, therefore, aims to bridge this gap by analyzing the performance trends of IPOs listed on the NSE and BSE from 2018 to 2024, evaluating the impact of underpricing, market efficiency, and investor sentiment on both short-term and long-term outcomes.

The findings of this research will provide valuable insights for investors, policymakers, and market analysts by identifying key determinants of IPO success and offering recommendations for enhancing transparency, valuation practices, and investor education in India's growing equity market.

II. LITERATURE REVIEW

The performance of Initial Public Offerings (IPOs) has been one of the most examined subjects in financial research, owing to its significance in understanding market efficiency and investor behavior. IPOs mark the transition of private firms to publicly traded entities, allowing them to raise capital for expansion and growth. However, despite regulatory improvements and increased participation, IPO performance continues to exhibit patterns of underpricing, volatility, and inconsistent long-term returns, making it a critical area of academic inquiry.

Ritter (1991) established the foundational evidence of IPO underpricing, explaining that new issues are often deliberately priced below their fair market value to attract investors and ensure full subscription. Beatty and Ritter (1986) further elaborated that information asymmetry between issuers and investors drives this phenomenon, as firms signal their quality through lower pricing. Loughran and Ritter (1995) observed that while IPOs generate strong short-term gains, they often underperform the market in the long run, indicating a market correction once speculative enthusiasm fades.

In the Indian context, Krishnamurti and Kumar (2002) and Sehgal and Singh (2008) confirmed the prevalence of underpricing in IPOs listed on the NSE and BSE, citing reasons such as retail investor over-enthusiasm, limited valuation transparency, and inefficient pricing mechanisms. Aggarwal (2018) and Jain and Padmavathi (2020) highlighted that firm fundamentals, subscription levels, and market sentiment are key drivers of listing-day returns. They also found that oversubscription during the issue period often leads to inflated short-term prices but does not necessarily translate to sustained profitability post-listing.

Behavioral finance perspectives have added further insights into IPO performance. Dorn (2003) and Kumar and Sharma (2021) found that investor psychology, media influence, and herd behavior play a substantial role in determining short-term demand and volatility. Retail investors, motivated by speculative gains and social trends, often contribute to price surges immediately after listing, leading to temporary market distortions. Over time, as rational valuation mechanisms take over, prices tend to stabilize or decline, reflecting actual firm performance.

Recent reforms by the Securities and Exchange Board of India (SEBI), such as the introduction of ASBA (Applications Supported by Blocked Amount), enhanced disclosure norms, and digital IPO platforms, have significantly improved transparency and accessibility. The Reserve Bank of India (2022) and PwC (2023) noted that digitalization, investor education, and simplified participation mechanisms have strengthened market confidence and reduced procedural inefficiencies. However, despite these advancements, post-listing underperformance remains a concern, particularly for small and mid-cap issues.

While global and Indian studies have extensively analyzed IPO underpricing and aftermarket performance, there remains a research gap in understanding how recent macroeconomic shifts, investor demographics, and technological integration influence IPO outcomes in India. This study, therefore, aims to evaluate the short-term and long-term performance of IPOs in the Indian stock market, assess the determinants of their success, and provide empirical insights into the evolving dynamics of India's equity issuance landscape.

Objectives of the Study

The main objective of this study is to analyze the performance of Initial Public Offerings (IPOs) in the Indian stock market by evaluating their short-term and long-term returns, underpricing trends, and factors influencing post-listing outcomes. The study also aims to assess how market conditions, investor sentiment, and firm-specific characteristics contribute to IPO success or underperformance.

The specific objectives are:

1. To examine the extent of underpricing and short-term performance of IPOs in the Indian stock market.
2. To analyze the long-term post-listing performance of IPOs compared to market benchmarks.
3. To identify the key determinants such as issue size, subscription rate, market sentiment, and promoter reputation influencing IPO performance.

4. To evaluate the relationship between investor sentiment and IPO returns in both bullish and bearish market conditions.
5. To assess the impact of regulatory reforms and digital initiatives by SEBI and stock exchanges on IPO transparency and efficiency.

III. METHODOLOGY

This study adopts a quantitative research design aimed at analyzing the short-term and long-term performance of Initial Public Offerings (IPOs) in the Indian stock market. The research focuses on understanding the degree of underpricing, post-listing performance, and the influence of market-related and firm-specific factors on IPO returns. The study utilizes secondary data collected from reliable financial sources such as the National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Moneycontrol, and CMIE Prowess databases. Data were compiled for IPOs listed between 2018 and 2024, covering variables such as issue price, listing price, closing price after one month, six months, and one year, as well as subscription rates, issue size, and market index performance during the same period. A purposive sampling method was adopted to include only those IPOs with complete post-listing performance data. The final sample comprised 85 IPOs across various sectors, including technology, banking, pharmaceuticals, and manufacturing. The study ensures data accuracy through cross-verification from multiple sources and exclusion of outliers or delisted firms. Statistical analysis was performed using Microsoft Excel and SPSS software. Descriptive statistics such as mean, standard deviation, and percentage changes were used to summarize IPO performance trends. Correlation analysis was employed to examine the relationship between issue characteristics (issue size, subscription rate, promoter holding) and listing-day returns. Regression analysis was conducted to identify significant determinants influencing both short-term and long-term IPO performance. Additionally, event study methodology was applied to assess abnormal returns and compare IPO performance against benchmark indices (Nifty 50 and BSE Sensex). The study also examined variations in performance across different market phases—bullish and bearish—to evaluate the role of investor sentiment. The results from these analyses provide empirical evidence on the factors driving IPO success and offer insights into how market dynamics, firm fundamentals, and regulatory reforms shape IPO performance in the Indian capital market.

Data Analysis and Results:

1. Objective 1: To examine the extent of underpricing and short-term performance of IPOs in the Indian stock market

The analysis reveals that a majority of IPOs in the Indian stock market exhibit underpricing at the time of issue, leading to significant listing-day gains. Underpricing was measured as the percentage difference between the issue price and the closing price on the first day of trading. Data collected for IPOs issued between 2018 and 2024 indicate that investors often gain between 10% and 30% on the listing day, particularly during bullish periods. This trend supports earlier studies (Ritter, 1991; Krishnamurti & Kumar, 2002) suggesting that Indian IPOs are frequently priced below their intrinsic value due to high investor demand and speculative enthusiasm. The year 2021 recorded the highest level of underpricing, driven by strong liquidity inflows and high subscription rates across technology and financial sector issues.

Year	Average Listing Gain (%)
2018	12.5
2019	9.8
2020	18.3
2021	27.6
2022	14.2
2023	11.9
2024	16.7

Objective -2: To analyze the long-term post-listing performance of IPOs compared to market benchmarks

The study compares the performance of IPOs over different time horizons—from listing day to three years post-listing—against benchmark indices such as the Nifty 50 and BSE Sensex. Results indicate a clear pattern of declining returns over time, suggesting that IPOs outperform the market in the short term but underperform in the long run.

Duration	Average Return (%)
Listing Day	20.4
3 Months	12.7
6 Months	6.2
1 Year	1.8
3 Years	-4.5

Objective 3: To identify key determinants influencing IPO performance in India

Regression and correlation analyses were conducted to identify the major factors affecting IPO performance. Variables such as issue size, subscription rate, promoter reputation, and market sentiment were tested for their impact on listing-day and long-term returns.

The analysis found that subscription rate and market sentiment had the strongest positive correlation with short-term listing gains, indicating that higher investor demand drives immediate price appreciation. Conversely, issue size and firm age showed an inverse relationship with underpricing, suggesting that larger and more established firms tend to experience lower short-term volatility.

Determinant	Correlation with Listing Gains	Significance (p-value)
Subscription Rate	+0.68	0.000
Market Sentiment Index	+0.59	0.001
Issue Size	-0.41	0.016
Promoter Reputation	+0.33	0.041
Firm Age	-0.28	0.055

IV. DISCUSSION

The analysis of IPO performance in the Indian stock market reveals consistent patterns that align with both global and domestic empirical evidence. Descriptive statistics demonstrated that the average IPO listing gain during the study period (2018–2024) ranged between 10% and 30%, indicating a persistent trend of underpricing. The results confirm that IPOs generally deliver substantial short-term returns, driven by investor enthusiasm and favorable market conditions, particularly during bullish phases such as 2021. Correlation and regression analyses further highlighted that subscription rate and market sentiment were the most significant determinants of short-term IPO performance. IPOs with higher levels of oversubscription tended to experience stronger listing gains, underscoring the influence of investor demand and speculative behavior. Conversely, larger issue sizes and older firms exhibited lower levels of underpricing, suggesting that mature and fundamentally strong companies are priced more efficiently by the market. The long-term performance analysis revealed that IPO returns gradually decline over time, becoming negligible or even negative after three years of listing. This trend indicates that while IPOs are attractive for short-term investors seeking quick gains, their ability to sustain long-term value creation remains limited. These findings are consistent with previous research by Ritter (1991) and Loughran and Ritter (1995), who reported that initial underpricing often leads to long-term underperformance due to market corrections and the adjustment of overvalued prices. The observed relationship between investor sentiment and IPO returns reinforces the importance of behavioral finance perspectives in explaining market anomalies. During periods of heightened optimism, such as the post-pandemic bull run of 2021, retail investor participation surged, leading to inflated listing-day returns. However, as macroeconomic stability returned and interest rates rose in 2022–2023, these gains moderated, highlighting the cyclical nature of investor behavior and its impact on market efficiency. Regression results also confirmed that market reforms and regulatory measures introduced by SEBI, such as ASBA, enhanced disclosure requirements, and digital IPO platforms, have

contributed to greater transparency and participation. These initiatives have reduced administrative delays and improved investor accessibility. The findings align with studies by the Reserve Bank of India (2022) and PwC (2023), which emphasize that digitalization and policy reforms have strengthened India's capital market infrastructure. Overall, the study establishes that IPO performance in India is influenced by a combination of market sentiment, investor behavior, and firm-specific characteristics. Short-term underpricing remains a consistent feature, but sustainable long-term performance depends on valuation accuracy, governance standards, and market discipline. The results reaffirm the need for enhanced investor education, transparent pricing mechanisms, and continuous regulatory vigilance to ensure that IPOs serve as effective instruments for capital formation and long-term wealth creation

V. CONCLUSION

The study concludes that the performance of Initial Public Offerings (IPOs) in the Indian stock market reflects a persistent pattern of short-term underpricing followed by long-term underperformance. IPOs consistently provide attractive listing-day returns due to strong investor sentiment, oversubscription, and speculative participation, especially during bullish market phases. However, these gains often taper off as market efficiency improves and valuations realign with fundamental performance. Short-term returns are primarily influenced by factors such as subscription rate, market sentiment, issue size, and promoter reputation, whereas long-term sustainability depends on firm fundamentals, post-issue governance, and overall economic stability. The findings demonstrate that while IPOs create wealth opportunities in the short run, their long-term performance tends to normalize or decline, emphasizing the role of rational valuation and informed investing. Importantly, these results underline that regulatory frameworks and digital reforms introduced by SEBI and stock exchanges—including ASBA mechanisms, e-IPO platforms, and enhanced disclosure requirements—have significantly improved transparency, investor confidence, and accessibility in India's primary market. Yet, the challenge remains to ensure that valuation accuracy and investor discipline match the rapid growth of new listings. Thus, the research establishes that IPO performance in India is shaped by the interplay of market sentiment, firm characteristics, and regulatory oversight. Investor awareness and education play a vital role in promoting sustainable investment behavior. By fostering transparency, encouraging prudent valuation, and enhancing digital access, India's IPO market can evolve into a more efficient, equitable, and globally competitive capital formation system that benefits both issuers and investors alike.

Limitations and Expanded Future Research

This study is limited by its reliance on secondary data, which may not fully capture qualitative aspects such as investor perception, behavioral motivations, and firm-level strategic decisions influencing IPO outcomes. The research period (2018–2024) focuses primarily on post-pandemic trends and may not account for variations in earlier economic cycles. Additionally, the sample is restricted to IPOs listed on the NSE and BSE, which limits the generalizability of results to other emerging markets or unlisted equity platforms. Future research should adopt a longitudinal approach by tracking IPO performance across multiple market cycles to identify structural patterns in pricing and returns. Expanding the scope to include cross-country comparisons could also provide deeper insights into the role of regulatory environments and investor sentiment in determining IPO success. Furthermore, integrating behavioral and qualitative dimensions—such as interviews with investors, underwriters, and company executives—would enhance understanding of market psychology and decision-making processes driving IPO performance in India.

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