

**A Study of Underpricing, Ownership and Liquidity of Initial Public Offers (IPO)  
and Their Impact on Performance of IPO Stocks in Indian Financial Markets**



सर्वदमनं प्रथमम्  
भा. प्र. सं. इन्दौर  
IIM INDORE

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By


**Pasupuleti Venkata Vijay Kumar**

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Thesis Advisory Committee:

  
**Prof. Vijay Kumar Gupta**  
(Chairman)

  
**Prof. A. Kanagaraj**  
(Member)

  
**Prof. Dipayan D. Chaudhuri**  
(Member)

### **Abstract**

Post liberalization of primary markets in the year 1993, the Indian market has moved closer to the world economy. As a result, the policy changes and regulations of the Indian primary market have dynamically advanced as per the requirements of the economy. The present study attempts to understand the characteristics of IPOs in the Indian market post liberalization through a comprehensive assessment of critical factors that influence the performance of IPO stocks in both long and short term performances. Review of extant literature suggests three such factors: Underpricing, Liquidity and Ownership Structure. While researchers have analyzed these factors individually, there is dearth of literature investigating simultaneous interaction effects of the three factors on IPO performances. To fill such gap, the study first develops a theory driven conceptual model that measures the impact of the three factors on post IPO performance. Further, the model is tested with IPO performance data for the period 2000-2010. To eliminate abnormalities arising from 'internet bubble', data from pre-2000 era is not used for the analysis. Ordinary least square regression analysis is used for analyzing the relation between two variables and multiple regression analysis is used for the analysis of the comprehensive model.

The study found that underpricing has significant impact upon short term performance and subscription rate. Underpricing was found to have non-significant relation with the allocated ownership variables. Ownership variables were found to have influence upon both long term and short term liquidity. Liquidity was found to have consistent influence upon the performance of IPO stocks in both short and long terms. A holistic study of the three characteristics provided explanation for above 80 percentage variance of short term performance and 20 percent variance of long term performance. The inclusion of liquidity and ownership variables in the model resulted in significant increment in explain-ability as compared to results of prior studies for long term performance.

The study contributes to literature by providing a comprehensive model interlinking major factors that affect IPO stock performance. It also highlights the presence of higher amount of underpricing in the Indian markets and their impact on post-performance of IPO stocks. The role of allocated ownership structure and liquidity on the performance of IPO in the short and long terms is also emphasized. This study has significance in guiding the formation of IPO portfolios in terms of tenure to be invested and the composition of the portfolios to be formed in Indian financial markets.

Key Words: IPO, Liquidity, Ownership Structure, Performance, Underpricing

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