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Determinants of Underpricing of Initial Public Offerings in India

ASHOK BANTWA*
KAUSHL BHATT**

Abstract

This paper is aimed at empirically exploring the level of underpricing and determinants of underpricing of Initial Public Offerings (IPOs) in Indian capital market. An underpriced IPO is one in which the final issue price is meaningfully lower than the closing price of the stock on listing day. The scope of the study is limited to the sample of 350 IPOs listed on Bombay Stock Exchange between January 2007 to December 2015. To get possible explanation for level of underpricing of IPOs stepwise regression has been used to study the impact of various factors like issue price, offer size, listing delay, age of firm, number of shares allotted, level of subscription, distance of issue price from price band, trading volume on listing day, issue duration, market adjusted return on opening and turnover rate on level of underpricing. It has been found that the sample IPOs are underpriced by 16.30% with maximum level of underpricing of 243.55%.

JEL Code : G12; G14; G24; G32
Keywords : IPO, Underpricing, Subscription, Listing, BSE, Stocks, India

I. Introduction

CAPITAL IS THE lifeblood of every organization. Most companies start up by raising equity capital from a small number of investors. To finance the growth of the company, it has to go public by issuing securities to a large number of investors.A company can issue securities in three ways i.e. public issue, right issue and Private placement.In fact, public issue has become the most popular way of raising finance in India Adam M (2012). There are two types of costs incurred by the firm which chooses IPOs for raising funds. While the direct costs are printing, accounting, auditing expenses, and legal and underwriting fees, the indirect costs are dilution of the existing

* Research Scholar, Gujarat Technological University, GJ SH 41, Near Visat Three Roads, Nigam Nagar, Chandkheda, Ahmedabad, Gujarat 382424, INDIA
** Assistant Professor, CGBS, Gujarat Technological University, GJ SH 41, Near Visat Three Roads, Nigam Nagar, Chandkheda, Ahmedabad, Gujarat 382424, INDIA

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