

Earnings Management around Initial Public Offerings (IPO) : Impact on Post Issue Stock Performance in India

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Abstract

Financial markets give impetus to economic development by enhancing the process of capital formation. They provide platform for mobilisation and channelization of funds from public to the business. Initial public offer (IPO) is one such method of fund mobilisation by business which is viewed as an investment opportunity by investors. Post issue underperformance of initial public offers casts doubt on relevance and reliability of corporate financial reports which are a primary source of information for investors. The presence of untrue accounting figures leaves the investors in distraught as returns decrease during post issue period. In this background the present paper strives to investigate the presence of earnings management in financial reports of IPO firms in India and its impact on listing and long run stock performance of 248 initial public offerings which got listed on National Stock Exchange during a ten year window from April 2008 to March 2018.

JEL Code : G10, G14, G24, G3, M41

Keywords : Corporate; Annual Reports; Earnings Management; IPO; Stock; Performance; Under-pricing; India

I. Introduction

THE AVAILABILITY OF funds is a prerequisite for smooth functioning of a business. From day to day working to the key expansion plans, availability of finance is a challenge. Funds may be raised through varied sources like retained earnings, equity, borrowings through debts, venture capital and bank loan, basically categorised as internal and external sources of finance. Raising capital through public issues is one of such sources, where shares are offered to the public for getting funds. Initial public offerings are of prime concern to the issuer and investors because it is for the first time when the issuer goes public and gets listed on a recognised stock exchange.

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analysts, investors and regulators about fairness of financial reports of IPO companies by disclosing the presence of managed accruals. The study further recommends the users of financial reports to look into the financial numbers carefully before committing money to a public issue. Potential researchers may explore the presence of real and accrual earnings management around public issues and its impact on the health of financial statements presented by the issuers. Implication of corporate governance norms and reforms initiated by regulatory bodies on earnings quality may also be investigated. Future research would provide a deeper insight into the niceties of earnings management practices adopted by the corporate sector and would help the stakeholders take suitable measures to mitigate such anomalies existing in the financial reporting system.

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