



## “A Comparative study on Initial Public Offering (IPO) subscription rate in pre and post COVID period”

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**Abstract:** The Indian stock market is experiencing phenomenal growth in terms of stock market investors count and it has reached around fifty million individual investors. The increased investors base can result in increased rate of IPO subscription. With this perspective the study focuses on comparative analysis of IPO subscription rate during pre and post COVID period. The study is conducted using secondary data collected during the Pre-COVID period that is from April 2018 to March 2020 and Post-COVID period from April 2020 to March 2022. The data so collected is analyzed using SPSS software and the appropriate statistical tools are used to draw valid inferences and conclusions.

**JEL Classification:** G4, G02, G11

**Key Words:** Initial Public Offering, Subscription rate, Investors count.

### 1. INTRODUCTION:

Initial Public Offering (IPO) refers to the issue of shares by the company directly to the public for the first time. The subsequent issue of shares by the company directly to the public is referred to as Follow on Public Offer (FPO). It is really a tricky decision to put the money in a relatively new company. In IPO investing, there is a chance of getting a significant first day capital gains, or long-term capital gains. On the other hand, there is a chance of incurring a significant first day capital loss, or long-term capital loss. (T Ramesh Chandra Babu and et.al, 2021).

The Indian stock market is experiencing a phenomenal growth after COVID 19 in terms of number of account holders, Initial Public Offerings (IPO) by the companies. So many new startups have emerged as a Depository Participants and they are offering free opening of D-Mat accounts with free life time Annual Maintenance Charges and this has led the investors to open more and more accounts and it has touched around fifty million stock market investor count. Almost all the companies who have come with IPO are over subscribed and out of these companies most of them listed at the price lesser than the price issued to the investors in the IPO subscription. The study focus on the changes in the subscription rate in Initial Public Offering during Pre Covid and Post Covid period along with the change in the increased stock market investors base. This paper investigates the role of subscription rate across investor groups in pricing Initial Public Offerings (IPOs) issued in India during April 2018 to March 2020 i.e., Pre Covid period and April 2020 to March 2022 i.e post Covid period. The Startup India initiative of the Centra has also led so many companies to raise their capital through public. A distinct feature of the Indian primary market is that various categories of investors can subscribe to the IPO issue based on mandatory allocation norms, as prescribed by the Securities Exchange Board of India (SEBI), which is India's securities market regulator (The SEBI does not play a role in fixing the price of an IPO). SEBI has divided investors into three broad categories: qualified institutional buyers (QIBs), non-institutional investors (NIIs), and retail individual investors (RIIs) (IPO investor categories comprise QIB investors, including domestic/foreign institutional investors, mutual funds, venture capital, and insurance companies (Harsimran Sandhu and et.al, 2020), for the purpose of this study the IPO subscribed exclusively by the retail investors is considered.

### 2. Review of Literature :

Datar and Mao (2006) have recommended that the issuer company eloquently underprice the IPOs to encourage a wider subscription. According to the researcher, on the listing day of the shares, it is noted that investors are fanatical and thus bid for IPOs at a price well above the true fundamental value of the stock. This is the major reason for



abnormal returns of the IPO on the listing day.

*Sahoo and Rajib (2012)* have found in their study that the subscription rate is positively related to the IPO issue/offer price.

*Seshadev Sahoo (2014)* in his paper investigated the relationship between subscription rate and pattern across various investor groups and its impact on underpricing by using a sample of 149 IPOs listed in India during 2001 to 2007. He document a positive association between underpricing and subscription rate for all three groups of investors, indicating more underpricing for more subscribed IPOs. He also found in his paper a significant shift in response pattern across institutional and non-institutional retail investors towards underpriced and overpriced IPOs.

*Harsimran Sandhu and et.al, (2020)* established a link between IPO offer price ranges and pre-listing demand among various categories of investors. They found the pre-listing stage of an IPO, RII and NII (individual investors) follow the QIB investors (institutional investors) by avoiding the lowest-priced IPOs. At the post listing stage, a link between the lowest IPO offer price ranges and initial turnover is also established. The initial turnover (IPO listing day trades) shows that investors trade less at the lowest range of IPO offer price. Individual (lowest range) and institutional investors (higher range) maximize their respective post-listing ownership at diverse ranges of IPO offer prices.

*T Ramesh Chandra Babu and et.al, (2021)* conclude that an initial public offering is a great opportunity for investors to earn good profits in the short run. The investors also use this as a speculative opportunity and sell off their shares on the listing day. The also opined that the subscription rate has a significant impact on the performance of IPO.

**3. Objectives of the study :**

- To study the growth of retail investors base in the Indian Stock market.
- To compare the subscription rate of IPO’s during pre and post Covid period.
- To compare the average issue size of the IPO’s during pre and post Covid period.

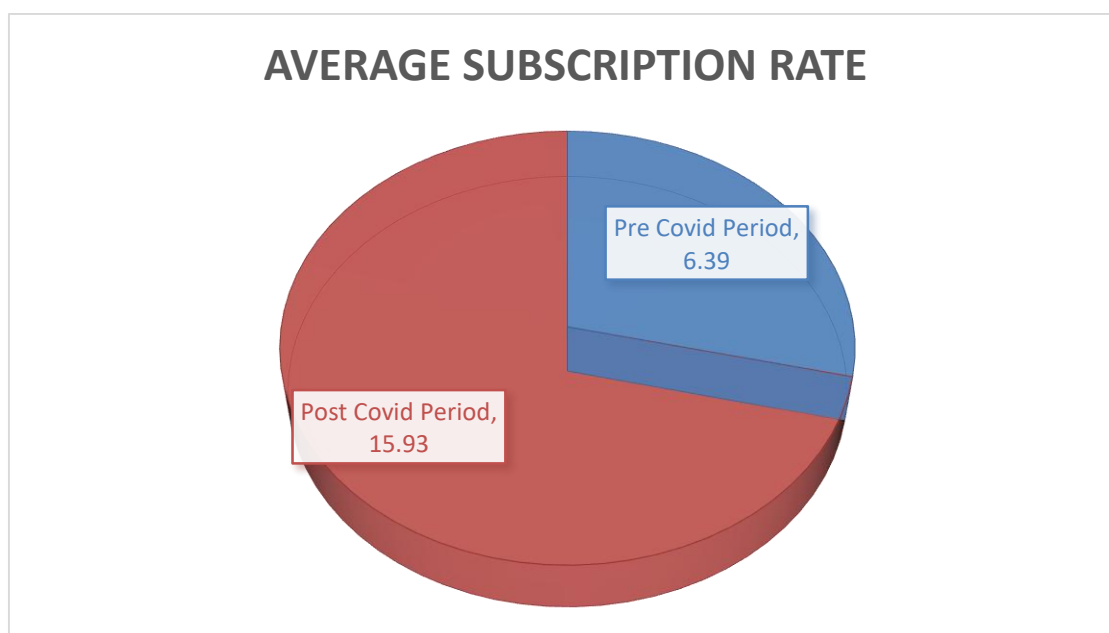
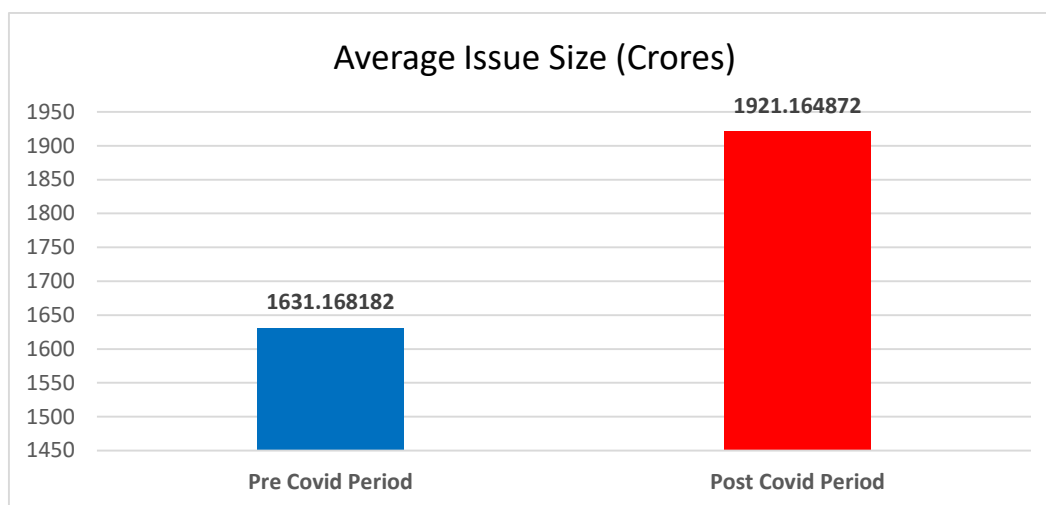
**4. Research Methodology :**

The study is the empirical research and the research has been carried out purely based secondary research data. The data required for the research is the number of companies issued IPO and the subscription rate in pre (April 2018 to March 2020) and post covid period (April 2020 to March 2022) has been collected through various websites and the data so collected is analyzed using SPSS to draw the valid inferences.

**5. Analysis and Interpretation :**

**Group Statistics**

Period		N	Mean	Std. Deviation	Std. Error Mean
IPO Subscription Rate	Pre Covid	22	6.3941	11.05022	2.35591
	Post Covid	78	15.9260	22.93463	2.59684
IPO Issue Size	Pre Covid	22	1.6312E3	2302.70417	490.93818
	Post Covid	78	1.9212E3	2766.50152	313.24461



From the above table and charts it is clear that 22 IPOs offered for the public during the Pre-Covid period i.e. 01/04/2018 to 31/03/2020 and 78 IPOs are offered for public during Post-Covid Period i.e. 01/04/2020 to 31/03/2022. The average issue size of the IPOs during the Pre-Covid Period is 1631.2 crores and it is 1921.2 crores during the Post-Covid Period. The Average Subscription Rate of IPOs is 6.39 times during Pre-Covid Period and 15.93 times during the Post-Covid Period.

From the above analysis it can be found that the subscription rate during Post-Covid period is 149 percent higher than the Pre-Covid period subscription rate. The IPO subscription rate is drastically increased during the Post-Covid period due to various factors and out of which one of the predominant factor that is causing increased subscription rate is increased number of retail investors base in stock market. The total number of retail investors increased by an astonishing 14.2 million in Financial Year 2021, with 12.25 million new accounts being opened on CDSL 1.9 million in NSDL (*Economic times, 24, October 2021*)

## 6. CONCLUSION:

After the covid pandemic the Indian stock market is experiencing phenomenal change in respect of various aspects like increase in the investors base and the exponential growth of the number of IPO's that are offered for the public during post-covid period in comparison with the pre-Covid period. Due to the changes that have been taking place in the stock market are influencing the investors and as a result of this the number of investors those who are opting for IPO's are also increasing.



The study has been conducted to compare and analyze the number of IPO's and IPO subscription rate during the Pre and Post Covid period. From the above study it is evident that the total number of IPO's that are offered for the public during pre-covid period are 22 companies with an average issue size of 1631.2 crores and 78 companies with an issue size of 1921.2 crores in post-covid period, which is a positive indicator for attracting the investors and growth of the stock market.

The increased number of investors in the stock market and the increased number of IPO's are positively influencing the IPO subscription rate. The IPO subscription rate during the pre-covid period was 6.39 times and it is 15.93 times in post-covid period which is 1.49 times higher than the pre-covid IPO subscription rate. The startup India initiatives by Government of India and the entry of new investors into the stock market during the post pandemic period are the major contributors for the drastic change in the IPO subscription rate between the pre and post covid period.

The current study is concentrated only the retail investors participation in the IPO's and the further research can be carried by considering other types of investors participating in IPO's.

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