Chapter- VI

Findings, Conclusion and Suggestions

This study analyzed the IPO price performance short as well as long run during study period of 2009 to 2014, observed effects on the investors’ reaction as regards the IPO price performance and also analyzed the revealed behavioral contours for the investors’ rationality. This study has focused on the investing behavior of the investors with respect to the IPOs and the data was collected from the investors. This chapter discusses the major findings of this study in brief and concluded the investors’ rationality by keeping in mind the observed viewpoint of the investors behavior on IPO price performance. This study tracked the investors’ preferences, perceptions, emotional biases, thinking styles, buy and sell pattern, attitude of investors in decision making, knowledge ability of the investors, imitating behavior, exuberant behavior, conservative behavior and disposition effect which affect the investors’ investment behavior or in making investment decisions for IPO investment. This chapter divided the conclusion into two sections as observed investors rationality in terms of the IPO price performance collected from secondary results and analyzed the revealed investors rationality based on the primary survey.

Section - I

Observed Investors Rationality in terms of IPO Price Performance

In this study, the chapter IV related to the IPOs price performance and observed the implications for investors’ rationality. For the IPOs price performance, the secondary data was collected from NSE and observed the variability in the results of the IPOs returns. For the analysis of secondary data, this study used the average return, return variability, market return, Sharpe’s, Treynor’s and Jensen’s Alpha measure. Since 1992, many number of IPO companies got listed through SEBI at NSE and come into market to go public. This study collected the listed IPO data from Jan. 2009 to August 2014 and 108 IPOs selected for the analysis. This study period used to calculate the IPO price performance in short run, in long run and then observed performance of the IPOs as regards the implications for the investors’ rationality.

The short run performance recorded for short period i.e. from listing day to six month after listing day. The long run performance was recorded for the long period i.e. a year after to
three year after listing day. The short run and long run IPO price performance analyzed by various parameters as descriptive statistics of IPOs price performance, IPO pricing performance (underpricing/overpricing), sectoral classification, issue size of the IPOs, subscription level of IPOs, IPO rating grades and rating agencies endorsement. Then this study examined the observed implications for investor rationality for the IPO pricing and the variables were subscription level, number of IPOs, IPO price range, market overpricing, sectoral distribution, issue size of IPOs in terms of capital mobilized, IPO rating grades and market momentum phases.

From the IPOs average return performance in short run, the IPOs average return have fallen 3.26 percent on the listing day, fell by 7.35 percent in a week after, slumped 11.27 percent in a month after, downside 13.33 percent in a quarter after and covers but the negative IPO return recorded by 6.49 percent in the six month after. In the long run time periods, more IPOs measured on the negative return. The long run average returns were collected as fall -10.17 percent in a year after continuously tumbled by -25.58 percent in two year after and reduced -33.58 percent in three year after listing day. It concluded that the IPOs performance was negatively recorded in short and in long run. In the sectoral distribution, the IPOs were distributed into seven categories as banking and financial sector, engineering, construction and infrastructure sector, metals and mining sector, fast moving consumer goods sector, energy and power sector, information, communication and entertainment sector, drugs and pharmaceuticals sector and remaining seventeen IPOs were recorded under the head diversified sector.

From this sectoral distribution, the thirty highest IPOs were listed under the engineering, construction and infrastructure industry in this study sample period. Now in this conclusion chapter, the results of IPO returns in short as well as in long run for all sectors discussed in brief. The banking and financial sector recorded the negative returns and overpriced performance in short run and recorded positive returns and price discovery in long run periods. This means the investors were not willing to invest in this sector due to the depreciation in IPOs returns recorded. The next sector had recorded highest number of IPOs named as engineering, construction and infrastructure industry. This sector IPOs recorded negative return with -10.23 per cent on the listing day and continued downfall recorded in short run and long run time periods.
The next industry was named as metals and mining. In this sector, average return of fifteen IPOs recorded positive returns on the listing day 5.00 per cent gain again recorded upside movement by 5.16 percent gain earned in a week after and then slumped in a month after and in a quarter after but price of IPOs corrected by 0.31 percent gain in six month after listing day. But in long run, the IPOs returns were negatively recorded. The investors behaved more confidently and optimistically invested in this sector due to the return appreciation recorded in IPOs on the listing day and after the short run, the price of the IPOs fallen due to more selling pressure. It is suggested to the investors that the investors would be rational, if sell the shares within a week after listing day rather than hold this sector IPOs for long run. In the FMCG sector, the IPOs were excellent on the listing day 13.55 per cent gain earned and price discovery recoded in short run. In the long run, this sector IPOs were recorded negative returns and overpriced performance.

The next industry energy and power was recorded negative returns of IPOs and overpriced performance in short run and long run. The next sector information, communication and entertainment sector and drugs and pharmaceuticals sector both two sectors noted negative return IPOs in short and long run. The last diversified sector IPOs were of IPOs which didn’t belong to the above seven sectors. This category had seventeen new listed IPOs which were recorded positive returns and overperformance of IPOs as gain earned 10.47 percent on listing day, followed by positive returns 33.20 percent in six month after, jumped by 39.73 percent return in a year after and continued positive returns 4.08 percent recorded in three year after listing day. The seven companies out of seventeen Rushil Décor, Thinksoft Global, Talkwalkars Better Value Fitness, Mahindra Holidays & Resorts, C Mahendra Exports, Jubilant Foodworks and Just Dial revealed the underpriced performance in the short run time periods as on the listing day, a week after, a month after, a quarter after and six month after listing day.

And the remaining five IPO, recorded positive and negative returns in short run. From the long run perspective, the five IPOs, as Talwalkars Better Value Fitness, Jubilant Foodworks, Just Dial, Credit Analysis and Research and V- Mart Retail recorded positive returns and six IPOs, as Cox and Kings (India), Indosolar, Intrasoft Technologies, Aqua Logistics, Timbor Home and Cantabil showed the overpriced IPO performance. But with the view of the long run average returns, the IPOs recorded positive returns in all the long run time frames. So in the overall sectors performance, only two industries recorded better performance than other sectors as metals and mining, FMCG sector and diversified sector IPOs. Overall in the sector-wise analysis,
some sector IPOs recorded positive returns even in declining phase of market and some sector IPOs recorded negative returns even in steep rising phase of market due to investors lack of awareness, lack of confidence on issuing companies and panicky behavior or fear of regret in making investment decision.

The metals and mining industry and FMCG sector recorded in better performed IPOs and it noticed that these sectors, issued the IPOs in less issue size offerings, in high rating grade (grade 3, 4 and 5) IPOs but recorded more public response in relation to subscription level which referred to as more investors demand for the metals and mining sector and FMCG sector on the listing day and earned the positive returns. But the banking and financial services sector recorded the more subscription level but recorded low returns performance from the listing day. The next aspect issue size of the IPOs, only the small issue size offerings below Rs. 100 lakhs recorded positive returns and price discovery in short run and in long run. In Rs. 100 to 200 lakh issue size, negative returns recorded and price corrected in short run but overpriced in long run.

In this study, as the issue size of offerings increased, the overpricing performance of IPOs increased. The low demand of investors recorded in large issue size of IPOs. In the small issue size offering, the investor’s more demand recorded on the listing day. The next parameter subscription level of the IPOs recorded positive returns in oversubscribed IPOs. In the subscribed level 5 to 10 and above 10 times subscribed IPOs, positive returns recorded and more investors response recorded in this subscription level in short run and in long run. The next parameter IPO rating grades recorded positive returns in grade 1 and grade 5 in short run and in long run and investors found rational in this rating grades. The high rating grade indicated the strong fundamentals of the IPO issuing company. The IPO grading provided additional information to the investors in making investment decision.

The rating agencies CARE, CRISIL and ICRA provided the rating grades to majority eighty eight IPOs. The rating agencies indicated that the investors should not interpret the grades wrongly in making IPO investment decision. The grades were only the indicators of the company fundamentals rather than the recommendations for the investors sell, hold and buy decision. The rating grade assigned by the rating agency is the only way for investors to assess the issuer companies IPOs in making IPO investment decision. From the IPOs underperformance, it can
conclude that the investors failed to assess the right IPO for investment decision which provides the positive returns.

It observed in this study that the high grade IPOs were less likely underpriced. But it noticed that the high graded IPOs (Grade 3, 4 and 5) were more subscribed than the low graded IPOs (Grade 1 and 2). This means the investors believe in the IPO rating grades and reacted exuberantly on high rated IPOs assigned by the rating agencies. It was also noticed that the high rating grade IPOs come up in large issue size offerings. The more number of IPOs recorded in large issue size IPOs which assigned at high grades. When the IPOs were highly graded by rating agencies then the IPO issuance companies, issued more number of shares (above than Rs. 1000 lakh) in public and recorded more supply of shares than the demand from the investors on the listing day and recorded negative returns for IPOs in high rated IPOs and in large issue size offerings. The high rating grade IPOs recorded the positive relation with the subscription level of the IPOs. But issue size of IPOs found inverse relation with subscription level of the IPOs. The more subscribed IPOs found in large issue size offerings and less subscribed IPOs recorded in small issue size offerings in this study.

From the three measures as Sharpe, Treynor and Jensen’s Alpha recorded the low or negative performance of IPOs in short as well as in long run. The low performance of Sharpe’s measure referred to as the IPOs were negatively performed. The investors take additional risk to get more returns but recorded less return on IPOs. The negative performance of Treynor’s measure considered that the IPOs return were underperformed and not able to beat the market. In the Jensen’s Alpha measure, the IPOs were underperformed and issuers had inferior forecasting ability to provide higher return on IPOs to the investors. The investors always expected more returns on their IPO investment but unfortunately, these measures showed the low performance of IPOs due to more market risk involved in this and the systematic risk cannot be eliminated or mitigated by holding the IPO investments. It can be mitigated by right allocation in IPO investment and by hedging strategy.

The implications for rationality in terms of IPO pricing variables aforesaid discussed. The variables had shown the irrational behavior of investors with respect to the IPO pricing performance. In the steep rising market phase, only four IPOs recorded in oversubscription level of IPOs and remaining IPOs recorded undersubscription level, this referred to as the low demand
of investors and irrational behavior of investors in this phase. The investor’s high demand, exuberance or overreaction behavior for the IPOs shown in steady rising phase, correction phase and declining phase rather than invest in steep rising phase resulted in irrational behavior of investors for IPOs investment decision. It is suggested that the investors can invest in steep rising phase to earn short term gains rather than hold their investments for long run. The performance of IPOs in oversubscribed level recorded less number of IPOs but recorded positive average return on the listing day and then recorded negative returns in short and long run. The exuberance behavior pushed the investors in losses and found irrational behavior of investors and recorded significant difference among the IPO subscription level and investors rationality.

The number of IPOs were unevenly distributed during the time period Jan 2009 to Aug 2014 which proved the irrational behavior of investors while issuance of IPOs to go public. The majority number of IPO issued at higher end of price range but the IPOs recorded negative returns which has been concluded that the significant implications in terms of IPO pricing. In the IPO price range, the positive relationship recorded between the price range and the subscription level of the IPOs. The high price range IPOs were more subscribed and on the other side, the low price range IPOs recorded investors less demand for the IPO shares on the listing day but in whole, recorded overprice performance for the IPOs. The IPOs overpriced performance had recorded during the study period Jan 2009 to Aug 2014 either in short run or long run. This overpriced performance in IPOs returns shown that the investors low demand for IPOs and lack of confidence on issuers of IPOs.

The grading also affected the investors investing confidence, only twenty five IPOs had recorded in grade 4 and 5 which were considered as high rating grades. But the majority number of IPOs (36 IPOs) recorded in grade 1 and 2 which considered as low graded IPOs. This investor’s under-reaction and overreaction behavior for the high and low graded IPOs showed the irrational behavior of investors in terms of IPO pricing performance. The market index reflected the expectations of the investors. In the hot/ rising phase of market momentum, more issuers decided to put IPOs in market to go public due to overoptimistic behavior of investors and resulted, earn short term gain. This high demand of investors temporarily pushed the IPO price more than the issue price and short term positive return earned but followed by the negative returns or crashed recorded in a week after and in long run for the IPOs.
Alternatively, the low demand for IPOs recorded due to the investors’ over-pessimistic behavior for IPOs, resulted in overpriced performance of IPOs and less IPO issued go public. This overreaction and underreaction, overoptimistic and overpessimistic behavior of investors concluded the irrationality of investors in making IPO investment decisions and significant difference found against the hypothesis that the investors are wholesome rational. The investors predispositions were significantly affected the investors exuberance and underreaction behavior on the IPO pricing and performance.

Section- II

**Revealed Investors Rationality to the IPOs in terms of Primary Survey**

On a whole, behavioral finance is the root which initiates the new psychological concepts for the investors’ decision making assessment. It is the study of psychological behavior of the human being which affects the person’s senses of decision making. All the psychological biases which have been discussed as contours affected the investors’ decision of IPO investing. The rational investors are not involved with these contours because they manage the emotions as panic, greed, regret, stress, pride and so on. The emotions make people weak while make investment decisions. In this report the chapter five was based on the analyzed investors rationality and their consequences found from primary data which was collected through the help of questionnaire from the investors who were invested their money into the stock market and analyzed the contours of investors’ rationality as regards the IPO pricing whether the investors were rational or not to their investment decisions for IPO investment.

To evaluate the respondents’ answers, this study used the factor analysis through SPSS which identified the factors after rotation and reduces the number of variables on to the extracted factors. The principal component analysis explained the 77.58 per cent total variance accounted by all extracted factors on the investors’ rationality. From this factor analysis, the eight factors were extracted with thirty four variables. The eight factors were analyzed and named as investing strategies, inadequate diversification, regret behavior, anchoring behavior, investors’ disposition, cognitive dissonance, pessimistic behavior and herding behavior.

The investing strategies were depicted from the nine variables that the investors invested in IPOs after the risk and return analysis, market volatility analysis and after the investment analysis, the investors were frequently check the updates from the investment websites of their
own investing stocks. The investors exuberantly behaved if the market movement were showing positive performance. When the IPOs prices were expected to fall then the investors sold the stock to avoid the loss. The rational investor was always interested in making decision of investment on the privileged information. But the investors found irrationally behaved in IPO investing due to their emotional decisions. The inadequate diversification concluded that the investors wrongly spread their investment in various other company shares which had underperformance and the investors lead to losses.

The investors invested after getting influenced by the financial advisors which were worthless and invested into that stock which was accumulated at the beaten down market. These all points described the inadequate diversification of the IPO stock by the investors. This shown the irrational investors behavior for IPO investment. After the inadequate diversification, the next investor contours recorded the regret behavior of investors from their own decisions. The investors regretted their selling decision too soon rather than holding the winners stock in a high period and also regretted the investment decision in overpriced stock for long period rather than investing in higher IPO stock. The next contour was found as anchoring behavior of the investors. The investors outlined their decision on the recent collected information and also forecasted the future possible share price outcomes based on their present information, this behavior was known as the anchoring behavior.

The investors made their predictions and make investment in the underpriced stock, seeking the advisors suggestions, avoid investing in the overpriced stock and invested for the long period. The anchoring behavior of investors also considered as irrational behavior because the rational investors always try to collect (past and current market information or fundamentals of the issuing company) all information related to IPO but the anchoring investors used only current information for the IPO investment. The next factor was designated as the investors’ disposition. The investors were framed the mind as regards to the investment in IPOs. The investors felt regretted while trading when suffered losses.

The investors made disposition that if the IPO prices were expected to fall then they sold the stock unto face the losses. The investors were framed that the investment was done only on the positive information and spread the investment in other investments to earn more returns and optimize the risk. But it is difficult to analyze for the investors that which investment was
provided better returns than the other IPOs because the IPO market is the totally new market. These consequences effect was proved that the investors were irrational while make the framing. Often, the investors were confused on their framed decisions whether to invest or not. When the investors were not comfortable on the decisions then this factor was named as cognitive dissonance. In this regard, the investors had contradictory ideas of investing in IPOs then with this wrong attitude, they were invested on the leverage money with the desire of more returns or otherwise hold that investment unto the price was recovered. And sometimes the investors from their uncomfortable decisions had taken advice from experts on the failed investment whether to sell or hold the IPO investment.

When the investors face the loss seeking situation and the IPOs issue price were showing more than the listing price then the investors were pessimistically behaved. On the failure of IPO investment, the investors often took expert advice or sell the IPO investment or explore the other alternatives which gave them the more returns. The investors also followed the herding behavior in investments. The investors follow the decisions of others rather than relying on their own positive information. The investors spread the investments in other IPOs by imitating others in anticipation of controlling the losses situation. So, it was the irrational behavior of investors. These were the eight factors collected from the primary survey which was explained that rejects the null hypothesis and found significant impact of emotional behavior on investors which were made them irrational on the IPO investment decisions. It is suggested to the investor try to make the right investment decision after the careful analysis of IPO company fundamentals which discloses from the IPO rating grades, analysis of the IPOs positive returns, negative returns and fairly priced and analysis of the IPO preference that which IPO is better performed and provides more returns to them.

![Figure: 6.1](image)

The rational investors are always willing to invest in IPOs after the analysis of risk, return, historical information of the company or financial position or industry group, experts
advice, other alternatives and so on. The experienced and knowledgeable investors were not interested to gamble for investing in the IPOs. After investing in IPOs, when the losses occurred then the investors emotional biases can make the rational investor as irrational and framed the strategies or dispositions for the volatile market. On the listing day, the investors are investing in IPOs, and keep watch the high or low prices through the investment websites. At the high prices, the investors are more likely to sell the shares and make short term gains. Otherwise, hold to earn more gains for the sufficiently time unto the prices are more increased from issue price and then sell at a huge profit. On falling of IPOs, the investors took experts’ advice or friends recommendations before any action.

The rational investor are more likely to invest in short term period and make short term gains because the IPOs are overperformed only unto a month after listing day and after this the IPOs started to fall and negative return IPOs performance was recorded as above price performance chapter. From this study results, it is concluded that the investors are more willing to invest in the metals and mining industry due to their positive return performance recorded up to a month after listing. The investors have to earn profits only from short-term investments. And in the case of issue size of the IPOs, if recorded larger issue size then the IPO was less overperformed and smaller issue size IPOs performed more underpriced. The issue size of IPOs showed negative relationship with the IPO returns. As the issue size of IPO increased, the IPOs return recorded overpriced performance. The small issue size offerings performed better than the large issue size offerings in this study.

From all these above findings, overall it concluded that the most of the companies want to go public in the underpriced market. The IPOs underpriced on the listing day or in the short run but after a month of listing, the IPOs underperformed in the long run. It observed that the IPOs usually overperformed in the starting listing days but over a long period of time, the shares overpriced. Because the IPO companies loosen their value in the market due to the investor’s weak faith for the issuing companies. The issuing companies oversubscribed or undersubscribed on the basis of the investors demand for the IPO shares. As the subscription level gone up, the IPO returns moved in the same direction and showed the more underpricing. It means the investors’ response to the IPO subscription showed positive relationship with the IPOs return performance.
It observed that if the investors demand was more optimistic or speculate in the market then the new company’s shares were more oversubscribed before listing of the IPOs. Subsequently, the IPOs entered into the market with the high listing prices than the issue price of the IPO. On the contrary, if the investors were pessimistically behaved or low demand of the issuing company shares, shown that the IPOs were low subscribed and hence the less new companies entered into the market to go public. As positive relation observed in oversubscription and underpricing IPO issues. It is suggested to the IPO issuers that if they distribute the information equally between informed and uninformed investors then the results would be better and IPOs will more underpriced with less risk in IPOs return.

Rock (1986) described in study that the informed investors had superior information to influence the underpriced issues while the uninformed investors were forced to participate in the overpriced IPOs and faced the winner’s curse situation. The IPOs good return analyzed from the oversubscription of the IPOs. The investors have to analyze the IPO subscription quality in last two days of IPO issuance. In case of informed investors, issue will be oversubscribed and earned high returns on IPOs as well as outperform the market. As a result, more selling pressure found on the listing day and the closing price of the IPOs comes down on the listing day. The best time recorded to exit from IPO market was on the listing day due to high returns earned in this day. Due to less information or on the basis of their own judgments, the uninformed investors behave irrationally.

It is suggested that the investors will have to hold the loosing investments and sell the winning investment, even the investors must try to sell quickly the overperforming stock and keep a candid eye on the investment movements in market to get the updated information for avoid the regret. The investors have to avoid the repeating mistakes as selling early, buy at the high prices and hold on the too long which IPO is valuable and also avoid the imitating others blindly. Even, the investors will formulate the strategies of sell IPOs at winning and hold losing investment. But the investors will not pigeonhole their decisions at the diversification pattern before getting the updated information. If the investors diversify the investments into different sectors IPOs after the detailed analysis of companies then the investors will earn more returns rather than affected by the overconfidence and blind behavior on stock.
The investors should be careful from the overconfident and overreaction behavior in the IPO investing. The investors will try to analyze the market, their own decision and emotions which influenced choices and analyze the choice correctly before involving into it, after that come up on the decision actions. It is better to take experts’ recommendations in confusing situations and recast their suggestions rather than make a stupid mistake. The investors will have to consider the emotional biased behavior as the risk factor in the investment decisions neither shattered nor blame on the others advice. This research study is helpful for the investors to make judgments with the new perspective and make investment decisions in a better way. It is suggested to the investors, to monitor the IPO price movements daily to update themselves due to the fast market volatility recorded before make buy and sell decision for their IPO investments.

As seen above analysis, IPOs earned more profits on the listing day rather than in the long run because investment in new listed IPOs is more risky due to their no trading history. Often, the new companies’ started to earn positive returns after few years. Due to this, the IPO shares started to regain their prices when the market is rising. It is suggested to the investors that the investors may purchase the new shares on the listing day and hold the IPO for long period unto the IPOs showed positive returns or make good returns. But as the market moved downside, the IPOs also decreased their returns. After some time, when market started recover their movement and IPOs also recovered their returns then sell their investments but IPOs did not revert back to the issue price.

In this study, the long run underperformance recorded due to less interest of investors for the issuance of the IPOs. But this underperformance showed the positive relationship with the rational behavior of informed investors. When the informed investors found interested to invest in IPOs, at this time the IPOs recovered positive returns and the informed investors sell their investments at gains after that, the IPO performance recorded negative returns. This long run underperformance recorded highly in the Drugs and Pharmaceuticals sector by -50.37 percent and Engineering, Construction and Infrastructure sector by -35.44 percent low returns in a year after. The two sectors recorded highly negative returns as Information, Communication and Entertainment sector (-50.87 percent return) and Drugs and Pharmaceuticals sector (-52.44 percent return).
percent return) in two year after. The Drugs and Pharmaceuticals sector -53.09 percent downfall in returns recorded in three year after listing day. So, it is suggested to the investors that make decision to invest in the other sector IPOs rather than invested in new technology and medicine firms.

As observed that the IPOs were unevenly distributed during the study period. The market momentum affected the issuance of the IPOs. The more number of IPOs issued when the market is rising and the sentiment of investors for IPOs is also rising. It is suggested to the issuing companies and regulatory authorities to issue the IPOs evenly every year. Thus, the IPOs capital is raised when it is ensure that the IPOs are evenly distributed. When the IPOs will evenly distribute, the investors will rationally behaved. It depicted that the IPOs underpriced on the listing day and earn gains but recorded fall consistently over the short run and long run. The investors should first analyze the historical chats of the market momentum, company prospects and risk factors which affect the IPOs before make IPO investment decision. The IPO rating grades are already compulsory by the SEBI for the investor’s protection. The SEBI should make some efforts for IPO rating grades given by rating agencies for more investors rationality found in grading. The rating grades based on the IPO companies fundamentals and ensure to provide better returns.

This study results may be helpful for the investors who make their IPO investment decisions on guesses or blindly follow the others reactions. This study may be helpful for the book running lead managers who helps the issuer companies to fix the issue price based on the investors’ reactions. It may be useful for the issuer companies to decide the issue size of IPOs for more underpricing. This study results may be helpful for the SEBI authorized rating agencies who assigned the rating grades to the IPO companies to protect the investors from losses and helpful in making investment decisions rather than suggested the buy, hold and sell decision for IPO. The results may be helpful for the government and SEBI who make policies and issued the guidelines for the IPO companies in future.

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