Chapter 1
Introduction
Capital market plays a pivotal role in the promotion and development of an economy. It is a market for securities, either debt or equity, where business corporations and governments can raise long-term funds. It is this market which provides the mechanism for channelising current savings into investment in production facilities, i.e., for allocating the country's capital resources among alternative uses. It is the capital market that bridges the gap between the present and future prospects of an economy as it mobilises and channelises funds to enterprises and provides an effective source of investment in the economy. It plays a critical role in mobilising savings for investment in productive assets with a view to enhancing the country's long-term growth prospects, and thus acts as a major catalyst in transforming the economy into a more efficient, innovative, and competitive marketplace in the global arena. In an economy with primitive capital market, poor control and regulatory measures, and ineffective implementation of these measures, the savings of the household and individual investors will be mostly in the form of hard cash, physical assets like land, gold, and such other precious metals, or at the most, in the form of bank deposits, or government small savings schemes. It is only the reforms in the capital markets resulting in transparency in market dealings, stringent regulations, and equally rigorous and transparent implementations of these regulations ensuring safety of the investments of retail investors, which can attract the savings of small and retail investors towards capital markets. In addition to resource allocation, capital market also provides a medium for risk management by allowing the diversification of risk in the economy. A well-functioning capital market tends to improve information quality as it plays a major role in encouraging the adoption of stronger corporate governance principles, thus supporting a trading environment. Capital markets across the globe have played a crucial role in supporting periods of technological progress and economic development throughout history. Among other things, liquid markets make it possible to obtain financing for capital-intensive projects with long gestation periods. This certainly was the case during the industrial revolution in the eighteenth century among the European and Western countries.

The capital market basically consists of two segments – the primary securities market and the secondary securities market. The primary market segment of the capital market is, in fact, the new issues market which acts as a connecting link between supply of funds and demand for funds or simply 'sources and uses' for long-term funds. In this segment of the capital market, the source or supply of funds primarily comes from the domestic savings of individuals and business, other suppliers being financial institutions and foreign
investors. The primary applications of these funds are into long term financing of the investments in housing and infrastructure development, the long term investments of corporations and other businesses and the long term borrowings of the governments to set right the budgetary deficits. Thus, in the primary market, funds flow from those who have surplus of current income over expenditure i.e., savings, and these funds flow to their ultimate users, which are different sectors of the economy issuing securities to finance an excess of expenditures over their current incomes. For most retail and individual investors, their savings reach the new issue market indirectly via a financial intermediary. For example, the savings of most individuals are directed towards the ultimate users like a business entity desiring to finance its productive facility expansion or a developmental project through an investment company or a similar institution. An individual investor might invest his or her savings in the mutual fund scheme of a fund house, or in the unit linked insurance plan (ULIP) of an insurance company which, in turn, invests these funds in the new issue market or in the securities of corporate entities. The individual investors investing their savings in these investment vehicles may be totally unaware of the new issues market and its various constituents. The purpose of secondary securities market, like any other organised market, is to enable buyers and sellers of securities in the primary market to effect their transactions more quickly and cheaply than they could otherwise. Such a function is primarily performed by stock exchanges in an economy which typically deals in existing securities rather than in new issues. The basic function a stock exchange performs is providing marketability for the long-term investments made in the primary market and thus enhancing the liquidity of the investments made and reducing the personal risk incurred by the investors. This enables and encourages the individual investors to participate in the primary market activities, especially in equity market where the investments in equities are for the life of the companies, because of the ability to shift ownership in equities to others (source Bhalla (2000)).

Broadly, issues made by a corporate entity can be classified as Public Issue, Rights Issue, Bonus Issue, and Private Placement. While public issues and right issues by a listed company involve a detailed procedure, bonus issues and private placements are relatively simpler. Various types of issues by a corporate entity can be diagrammatically presented as under
The inter-relationship among various types of issues can be illustrated as under

I. Public Issue
   - Initial Public Offering
     Fresh Issue
     Offer for Sale
   - Further/Follow-on Public Offering
     Fresh Issue
     Offer for Sale

II. Rights Issue

III. Bonus Issue

IV. Private Placement
   - Private Placements by Unlisted Companies
   - Preferential Issues by Listed Companies
   - Qualified Institutional Placements by Listed Companies

When an issue/offer of securities is made to new investors for becoming part of shareholders’ family of the issuer, it is called a public issue. Public issue can be further classified into Initial public offering (IPO) and Further/Follow-on public offering (FPO). When an unlisted company makes either a fresh issue of securities (primary shares) or offers its existing securities (offer for sale or secondary shares) held by promoters, venture capitalists, or private equity funds for sale, or both, for the first time to the public, it is called an IPO. This paves way for listing and trading of the issuer’s securities on the Stock Exchange. When an already listed company makes either a fresh issue of securities...
to the public or an offer for sale to the public, it is called an FPO. When an issue of securities is made by an issuer to its shareholders existing as on a particular date fixed by the issuer (i.e., record date), it is called a rights issue. The rights are offered in a particular ratio to the number of securities held as on the record date. When an issuer makes an issue of securities to its existing shareholders as on a record date, without any consideration from them, it is called a bonus issue. The shares are issued out of the Company's free reserve or share premium account in a particular ratio to the number of securities held on a record date. When an issuer makes an issue of securities to a select group of persons not exceeding 49, and which is neither a rights issue nor a public issue, it is called a private placement. Private placements by an already listed company can take two forms: Preferential Issues and Qualified Institutions Placement. Private placements by unlisted companies are not regulated by SEBI. Private placements by listed companies in the form of preferential issues are typically made to promoters, venture capitalists, private equity firms, collaborators and/or to other strategic/financial investors and are done primarily to raise funds required by the company. Qualified Institutional Placements (QIPs) by listed companies are made through private placement of securities only to qualified institutional buyers (QIBs). QIPs are typically made to raise funds required by the company, and also for meeting the listing requirements on minimum public holdings.

1.1 Introduction to Initial Public Offerings

In the process of financing a company, the first stage is characterized by the seed money coming from the promoters, their families and friends and as such, most firms start their life with high insider ownership. While this source of finance is sufficient to get things launched in the case of some companies, more often the success of the private firms prompt the owners to take the company public with a sale of stock to outsiders. This stock of a company that is issued to the public for the first time is called Initial Public Offerings (IPOs) in the capital market parlance. Also, referred to simply as 'public offering', it is the first sale of stock by a private company to the public. It is when a company makes the transformation from being privately held to becoming publicly traded. In an IPO, a private firm generally sells off a portion of its outstanding equity, but the previous owners retain significant ownership and control of the public corporation. IPOs are often issued by smaller, younger companies seeking capital to expand, but can
also be done by large privately-owned companies looking to become publicly traded
Governments all over the world are also using IPO to divest their stake in the state-owned
enterprises Thus, IPOs have been an important source of corporate financing for a long
time all over the world It is a major decision that will surely change the character of a
company and mean many sleepless nights for the management What is more, an IPO
could be an expensive and a lengthy process since the company opting for IPO has to
pass through a lengthy and laborious legal process
The decision to go public or to make an IPO of equity represents an important landmark
in a firm’s life cycle Also, such a decision to go public is one of the most important, but
less studied topics in corporate finance A well-functioning IPO market provides exit
options for stakeholders in young firms, access to low cost capital for growing firms, and
greater access to capital for future expansion of large firms Flow of capital to firms can
stimulate growth in an economy Thus, regulators are interested in mechanisms that
facilitate better functioning of an IPO market
As discussed earlier, primary market provides a platform to companies to raise fresh
capital A steady level of activity in the primary market is very much essential for the
overall functioning of capital market and the economy as a whole From 1980 to 2001,
the number of companies going public in the US exceeded one per business day The
number of IPOs has varied from year to year, however, with some years seeing fewer
than 100 IPOs, and others seeing more than 400 These IPOs raised $488 billion (in 2001
dollars) in gross proceeds, an average of $78 million per deal (Ritter and Welch (2002))
These numbers summarise the patterns in issuing activity which have been the focus of a
large theoretical and empirical literature The volatility in the volume of new issues can
affect liquidity, size and depth of capital market, which can ultimately affect investment
opportunities Hence it is very important for the investors, policymakers, stock exchange
authorities and finance researchers to understand the determinants of ‘going public’
decisions of companies

1.2 Reasons for Going Public

The first question that arises is “why do firms go public?” In most cases, the
primary answer is the desire to raise equity capital for the firm and to create a public
market in which the founders and other shareholders can convert some of their wealth
into cash at a future date A traditional view in corporate finance is that companies access
public equity market via IPOs to raise equity capital to finance their growth Firms move
to public ownership through an IPO when they have greater growth opportunities (Poulsen and Stegemoller (2008), and Lowry (2003)). However, empirical evidences have led researchers to question whether raising capital is the only purpose of going public. Studies have shown that companies go public for reasons other than raising capital to finance their growth opportunities. Following are some of the common reasons for companies to go public:

1.2.1 Prestige

Going public and getting listed on a reputed stock exchange could be a major accomplishment for any company in its life cycle. Kadlec and McConnell (1994) suggest that the listing on major stock exchanges can show the willingness of a company to become popular (cited in Mayur and Kumar (2007)). The authorities of the stock exchange on which the IPO company gets listed, will start noticing the activities of the company. Analysts and media will start following the company. Information production by outside investors improves the investment decisions (Subrahmanyam and Titman (1999), and Chemmanur and Fulghieri (1999)). Hiring of skilled and talented employees becomes easier as listed companies are generally presumed to be more stable and reputed than unlisted companies. Listed companies may even choose to offer stock options to employees as compensation to them or as part of their retirement plan which could act as a great motivating factor for the employees. Since the shares are already listed, the shares obtained under stock option plan can be liquidated quite easily in times of necessity. In addition, such stock options can strengthen the bond between the employees and the company. Also, the management is going to be benefited by offering stock options through tax advantage and by conserving cash flow. The enhanced reputation of the listed companies can also ensure their continuity into the future. Marchisio and Ravasi (2001) note that family-owned businesses in Italy go public to secure their continuity when no family member wants or can succeed the previous generation (cited in Mayur and Kumar (2007)).

1.2.2 Acquisition Motive

Apart from financing their own investment and growth opportunities, IPO companies may even use the proceeds obtained from their IPOs for acquiring other businesses. Based on the survey of CFOs of IPO companies in the US, Brau and Fawcett (2006) find that the primary motivation for going public is to facilitate acquisition, while the reason for remaining private is to preserve the decision-making control and ownership. Hsieh et al. (2009) suggest that going public reduces the uncertainty about a firm’s value,
and thus improves its ability to conduct profitable acquisitions (cited in Celikyurt et al (2010)) Celikyurt et al (2010) also note that the desire to make acquisitions is an important factor behind the IPO decision, and acquisitions play a substantial role in the growth of new public firms. In addition, study also finds that subsequent equity and debt issuance is closely linked to post-IPO acquisition activity.

1.2.3 Market Timing

Another very important factor influencing the going public decision of companies is the existence of ‘windows of opportunity’. Vast majority of researchers have found evidence consistent with promoters of privately held companies taking their firms public at a time when the ruling market sentiment is quite high. In their study on the going public decision of Italian firms Pagano et al (1998) note that firms go public not to finance future investments and growth, but rather the likelihood of IPO reflects the entrepreneur’s attempt to time the IPO when the stock market valuation of firms in the same industry is high. Lowry (2003) notes that in addition to demand for capital, investor sentiment is also an important determinant of IPO volume. Boehmer and Ljungqvist (2004) show that German firms go public when their investment opportunities and valuations become attractive (cited in Celikyurt et al (2010)). Kim and Weisbach (2008) find that financing of capital expenditures and the desire to benefit from potential overvaluation are motives for IPOs and FPOs.

1.2.4 Getting Rich

Floating an IPO is one of the best ways for company principals/promoters to become rich, especially if they could do so when the firm is overvalued. Zingales (1995) argues that, by establishing a market price for the shares, an IPO allows the owners to increase the value they can extract from selling their company (cited in Celikyurt et al (2010)). By selling secondary shares in the IPO when the market valuation is quite high, the promoters can liquidate their stake in the venture and can become rich overnight. In the case of Reliance Power IPO in 2008, the promoters of the company garnered a huge amount of Rs 11,560 crore by offloading just 10 percent stake in the venture. As part of their disinvestment strategy, the governments are also accumulating large amounts of funds through the IPO of PSUs. In the case of IPO of Coal India, by divesting 10 percent stake in the venture, the Government of India garnered Rs 15,200 crore, the highest ever proceedings by an Indian IPO. It is not just the founders/promoters who get rich in a successful IPO, the company’s employees too. Microsoft in the US has created over 2,000 millionaires because of stock options. Another example is Apple Computer, which
went public in 1980s. On the first day of trading, forty employees became instant millionaires. Also, successful subscribers who are allotted shares in such successful IPOs can become wealthier as the stock price shoots up once it is listed. For example, eBay went public in the U.S. in 1998 selling 3.4 million shares to the public at $18 per share, thus raising about $62 million for the company. At the end of the first day of trading, the stock closed at $47.38 per share—a stunning 163 percent increase. But the stock did not stop there. In the next two months, it had soared 544 percent, making the promoter of the company, a mere 28 years old Omidyar, a billionaire. In the case of IPO of theglobe.com, an Internet site that gives away web addresses, the offering price was $9 and within minutes of trading on the listing day, the stock hit $97. By the end of first trading day, the stock was quoting at $63, a 705 percent gain. The two founders of the company were just 24 years old (source: Taulli (2000)). Of course, investments in IPOs can be extremely risky also. There are many IPOs that have collapsed—the value of some of them has been reduced to negligible prices in the aftermarket. After all, small companies can be adversely affected by numerous factors including a top manager who unexpectedly resigns from the company or a major, regular customer that goes to another vendor. Further, successful IPO investing involves being patient. Every time, the investors in IPOs cannot expect to become rich overnight. The only way to get rich overnight may be through lottery or inheritance. Besides, short-term investing is a game for professionals, who have the time and resources to devote their life to investing. Playing against them could be extremely dangerous to the portfolio of small investors.

However, selling the shares in a public issue at an astonishing premium and thus the promoter making huge gain can be a spot of botheration for the law makers also. An article published in Business Line on March 8, 2008 (BL, 08/03/2008) has raised this issue, "In the case of a company whose projects have not gone on stream, thus having nothing to show by way of profits, should there not be parity between the promoter and the public in the matter of price paid per share?" The article discusses this issue by taking up an example of a company, with an authorised capital of Rs 100 crore divided into shares of Rs 10 each, and the promoter is diluting 20 percent of the share capital, which is Rs 20 crore, by way of an IPO. If the shares are issued at Rs 450 each, this translates into a whopping premium of 4400 percent. The shares offered to the public are just 20 percent of the total capital of the company, but these are the ones that bring disproportionately huge cash into the coffers of the company. As against Rs 80 crore brought in by the promoter for an 80 percent stake, the public is bringing in Rs 900 crore for a meager 20
percent stake. The article further adds that in the case of a running company with track record, appropriate premium from newcomers is perfectly justified mainly on the ground that the existing shareholders should be compensated for the dilution in the EPS as well as in the market value engendered by the larger number of shares. No such case can be made out for a company whose projects are just in the anvil or whose projects have not gone on stream, thus having nothing to show by way of profits. In such circumstances, should it not be the law that there must be parity between the promoter and the public in the matter of price paid per share? If the public has brought in Rs 900 crore for a 20 percent stake, the promoter should bring in four times this amount, that is, Rs 3,600 (80 + 3,520) crore for an 80 percent stake. Such parity in treatment is warranted in respect of a company that is an unknown quantity albeit with a bright future.

1.2.5 Cash Inflow
An IPO will typically raise a lot of cash for the issuing company. This money does not have to be paid back. The company can use this money to float the acquisition of a new or expanded business or build new facilities/fund research and development, with long gestation periods. Thus, IPOs can really help companies in deep cash crisis. For example, fuelled by the mega public offer of Reliance Power, the month of January 2008 ended up as a watershed month with domestic companies mopping up over Rs 13,000 crore through IPOs in the Indian IPO market. The Reliance Power IPO alone attracted over 5 million bids for over Rs 7,50,000 crore against the issue size of Rs 11,560 crore. The IPO was subscribed around 72 times of its issue size. It was the biggest ever IPO on the Indian capital market from the point of view of issue amount. Later this record was broken by Coal India IPO in the public sector in the year 2010 which raised Rs 15,200 crore for the Government of India as part of its disinvestment strategy. Even this IPO was subscribed 118 times, with foreign institutional investors applying for shares worth more than Rs 1.1 lakh crore. The retail portion was fully subscribed, a significant achievement for an issue of this size.

1.2.6 Liquidity
Overall, because of the large amount of capital raised from the offering, and also because of the changed status of the company after getting listed, an IPO gives the company the increased ability to raise even more money. For example, banks may be more willing to lend money and extend credit to publicly traded companies than to privately held companies. Mello and Parsons (1998) claim that liquidity considerations are important in driving the IPO decision and they also note that the increased liquidity of the stock
lowers the cost of the capital. Also, listed securities can be used as collateral for loans, a practice used by Lawrence Ellison, the founder of Oracle, for many of the company’s early years (source Taulli (2000)). An IPO also allows the founders to diversify their holdings. Post-IPO, the founders can partially liquidate their stake in the company through the sale of secondary shares in the open market or through FPOs and use the proceeds of the sale of such secondary shares for investment elsewhere. However, promoters diluting their stake in the company through the sale of secondary shares could be a bad indication because it could convey negative signal to the market about the future prospects of the issuing company.

1.2.7 Stocks as Currency

Another major advantage of an IPO and getting listed on the stock exchange is that the company can use its stock as currency to purchase other businesses. Because of the lack of liquidity, and because they are hard to value, private companies often have difficulty acquiring other businesses. For example, if there are two proposals coming from two different companies—one from a private firm and the other from a company listed on the stock exchange—to acquire another firm, in most cases, the target company’s preference would be for the listed company, because it is perceived to be a well-established recognised company whose shares are easier to value. Therefore, using stocks of a listed company as currency for acquisition is a fairly common practice.

In addition to the above reasons explaining why companies go public, there is a set of empirical work examining the relationship between the companies’ characteristics and their going public decision. Some of the commonly studied characteristics and their impact on the going public decisions are as under.

1.2.8 Size of the Company

Size of the company captures two major costs associated with going public decision of companies. The first one being the costs associated with adverse selection and asymmetric information, younger and smaller companies usually have lower visibility and shorter track record and therefore are seriously affected by adverse selection costs. The second cost associated with size of the company having its impact on the decision to go public is the form of initial and subsequent expenses associated with going public, Pagano and Roell (1998) argue that only the large sized companies are able to bear the high administrative and other execution costs associated with IPOs (cited in Mayur and Kumar (2007)). Similarly, Ritter (1991) has found that fixed and variable costs associated
with IPOs in the U.S. market are high because of which executing IPOs carries huge costs which are difficult to be borne by a small size company.

1.2.9 Age of the Company

Age of the companies going public is another widely used variable in studying the going public decisions of companies. Age of the company has two implications: the first one being the proxy for costs associated with adverse selection and asymmetric information as discussed above. Secondly, age of the company is also used as the proxy for uncertainty about future profitability, younger companies are likely to be more uncertain about their future profitability and hence are more interested in going public.

1.2.10 Profitability of the Company

Researchers have included ‘profitability’ as the factor in their studies while studying the going public decision of companies. For instance, Diamond (1991), Pagano and Roell (1998), Chemmanur et al. (2005), Fischer (2000), and Rosen et al. (2005), all cited in Mayur and Kumar (2007), have found that even younger companies could overcome the adverse selection problem through their visible profitability.

1.2.11 Capital Expenditure of the Company

Pagano and Roell (1998) and Kim and Sung (2005), both cited in Mayur and Kumar (2007), use capital expenditure of companies to capture investment opportunities and financing constraints. Both these studies find negative relationship between companies’ capital expenditures and their going public decision. While Pagano and Roell (1998) argue that for companies with low capital expenditure it is difficult to generate enough funds to finance large investments and hence are more likely to make an IPO, Kim and Sung (2005) argue that low capital expenditure actually reflects the financing constraint of a company and hence the relationship should be negative.

1.2.12 Risk

Chemmanur et al. (2005) document that companies from risky industries are more likely to go public in order to diversify or divest the wealth of their initial owners. However, using standard deviation of return on assets in the last five years as the proxy for risk, Kim and Sung (2005) find that companies’ risk is negatively related to their going public decision. Study attributes its finding to be the result of fear among risky companies that they would be undervalued in case they go public.

1.2.13 Loss of Confidentiality

This is another factor discouraging companies from going public. In case a company goes public and as a result it has to disclose its technology or profitability to its competitors,
then there is possibility of the company losing its unique or superior position in the market. Pagano et al (1998) emphasise that research and intensity can show the level of threat for a company, companies with large R and D intensity are not willing to provide the information to outsiders and hence the relationship should be negative with the probability of going public. Using increase in R and D expenditure and capital expenditure in the post-IPO period which is taken as the proxy for the investment needs of companies, Kim and Weisbach (2008) argue that if companies’ going public decision is motivated by their investment financing needs, then their R and D expenditures and capital expenditures should significantly increase in the post-IPO period, Kim and Sung (2005) find that Korean companies with high R and D intensity are more reluctant to go public (cited in Maynor and Kumar (2007)).

1.2.14 Marketing Role

Increased publicity after getting listed can enhance the performance of the company’s products in the market. Demers and Lewellen (2003) studied the impact of listing on the performance of the products of the IPO company in the market by studying the relationship between IPO underpricing and performance of companies’ products. Study finds that higher underpricing receives more marketing benefits measured in terms of press coverage and, in the case of internet firms, underpricing attracts more traffic at their websites. Thus, underpricing of IPOs attract the attention of media and investors which, in turn, can result in positive publicity for the company. Through such increased positive publicity, the sale of firm’s products will increase.

1.3 Limitations of Going Public

Even though going public has several benefits to the company, it has certain limitations as well. Getting the company listed on the stock exchange need not be a bed of roses. Owing to the hassles of going public, many companies may prefer to remain private. Some of the reasons why a company may not be willing to go public might be listed and discussed as under.

1.3.1 Expense

The whole process of taking the firm public could be extremely expensive, the company has to hire the service of many specialists and mediators. One of the biggest and a major expenses associated with an IPO is in the form of underwriter discount which may range from 5 to 10 percent of the amount raised in the offering (source Taulih (2000)). Even after getting listed, the company has to make certain payments like annual fee to the stock.
exchanges, regularly. In case the company fails to abide by the rules and regulations of various authorities, it may have to pay heavy penalty to the respective authorities. In the case of some capital markets, the subscribers to an IPO can even bring suit against the IPO company if the aftermarket price of the securities goes significantly below the issue price. As a result of this, IPO companies deliberately underprice their issues (Ibbotson (1975), Timic (1988) (cited in Lowry and Shu (2002) and Lowry and Shu (2002)). Because of all these probable expenses, only large sized companies can afford to go public (Pagano and Roell (1998) (cited in Mayur and Kumar (2007)) and Ritter (1991)).

1.3.2 Doing Business as a Public Company

Doing business as a public company, listed on the stock exchange, is different from doing business as a closely held private company in many respects. For instance, apart from the additional expenses mentioned above, publicly traded companies are required to make certain quarterly and annual filings. They need an investor’s relations department to deal with shareholder inquiries and will probably need to retain attorneys and accountants to handle securities and regulatory agency’s (SEBI in case of India and SEC in case of the US) compliance matters. To handle the new reporting requirements, a company has to implement state-of-the-art accounting and information systems.

1.3.3 Loss of Privacy:

When a company initiates an IPO, it must comply with the myriad regulations meant to protect investors. The company will have to disclose all ‘material’ information. For example, in the red herring prospectus (which is the document given to those who want to invest in an IPO), the company must disclose its financial reports, business strategies, customers, executive compensation, and more importantly the risk factors associated with the operations of the company. Disclosure of all these information must be supported by facts and figures. Because of the mandatory disclosure of various documents, reports, and financial statements either to the government agencies or to the public, the company may not be able to maintain confidentiality of some of the vital information.

1.4 Participants to an IPO

The process of taking a firm public is a lengthy and laborious process. In addition to the promoters/principals of the company, services of many specialists and independent agencies are hired in the IPO process. Some of these specialists and independent agencies include—
1.4.1 Venture Capitalists

In the case of most of the IPO companies, at least for few years before they go public, they operate as private companies. For their survival and growth during this period, such companies have to attract financial support from various sources. In addition to the funds contributed by the promoters, the company seeks capital from friends, families, and business angels. These business angels are the private entrepreneurs who had floated their own ventures and then taken these ventures public gathering wealth, which they are now investing in other ventures. Angel investing is a process in which a wealthy person or group places funds in a venture without taking on the consulting role of venture capitalists (Barry (1994)). Presence/absence of venture capitalists (VC) can give useful direction about the post-IPO performance of a company. For example, Megginson and Weiss (1991) find that VC-backing results in significantly lower underpricing and underwriting spread charged by the investment banker handling the issue. Brav and Gompers (1997) report that VC-backed IPOs outperform non-VC-backed IPOs in the long run up to five years. Study offers several explanations for this difference in the long run performance: firstly, VC partners are typically put on the board of the company in which they are investing. These VCs can then help provide contacts and valuable leads on additional financing, they can also attract analysts to follow such companies. Above all, institutional investors may be more comfortable investing in companies that are backed by VCs.

1.4.2 Auditor

In the process of going public, the market regulator or the authorities of the designated stock exchanges want to make sure that the financial statements of the company provide true and fair position of the financial status of the company. Therefore, it is the responsibility of the auditor in the IPO process to ensure the authenticity of a company’s financial statements and to make sure that the company’s accounting practices are consistent with generally accepted accounting procedures (GAAP) so that, in the later stage, the company does not enter into any conflict with the authorities. The auditor is generally expected to be an authority independent of the company so that he is free to make impartial comment, both positive and negative, about the practices of the IPO company avoiding any conflict of interest with the company. He also helps the IPO company in drafting the financial reports in compliance with the requirements of the regulatory bodies. Therefore, hiring the service of an experienced, well-reputed auditor in the IPO process is very important. If the auditing part is mismanaged, then the floating of...
IPO may be delayed because of the frequent interruptions or queries by the regulatory agencies about the authenticity of the financial data. Another key advantage of having strong, well-reputed auditors is that they can help devise an effective budget and a long-term planning process for the company. These basic tools enable the public company to forecast cash flows, plan for new capital expenditures, control interest costs, and structure a tax-efficient compensation package for managers.

1.4.3 Attorneys/Legal Advisors

The role of talented and experienced legal advisors is very important in the process of going public. Conducting an IPO requires the company to be compliant with the provisions of various laws. This requires the company to hire the service of a team of attorneys or legal advisors who are well-versed with the law of the land pertaining to the process of going public. If at this stage, the legal advisors commit mistake and the rules and regulations are violated, this might place the IPO company in great trouble, the company might land up in the vicious circle of legal complications and might end up paying huge penalty to the state or in the extreme case, it might even be delisted. Therefore, the panel of legal advisors should be extremely careful at this stage to make sure that all the provisions of the law are strictly followed by the company. The panel has to review the existing contracts, amend the articles of incorporation and bye laws, develop the stock incentive plans, re-adjust the capital structure and so on. It will have to help the officials of the IPO company in negotiating with the regulatory agencies or stock exchange authorities, review the registration documents and might even advise the company as to how it should present itself to the investing public. The company might either hire the service of legal advisors who are specialists in taking the firms public or, out of loyalty, it might use the service of legal advisors it has been dealing with since inception. In the latter case, however, it might be problematic if these legal advisors do not have the necessary experience in floating the IPO.

1.4.4 Financial Printer

Traditionally, floating of IPOs used to generate a blizzard of paperwork. The hard copy of the prospectus has to be printed in thousands at a very short notice and has to be circulated across the country. Even though, because of online application for IPO shares and allotment of shares by way of crediting to the demat accounts of subscribers, much of the paperwork is reduced, still the minimum documents and other printed matters have to be printed.
1.4.5 Public Relations Firms
Since IPOs target large number of prospective investors who are spread across the country or even outside the country, public relations firms are crucial in stock offerings. In fact, public relation is a powerful tool for attracting the investors. When many companies are going public during a period when the market is bullish, competing with each other, each company going public may be keen in channelising the funds from the investing community. Without good public relation, an IPO can easily be lost in the crowd. Maintaining good public relation is important not only to attract initial subscribers to the issue, but also to create good market/demand for the securities of the IPO firm in the aftermarket so that the post-listing price does not go below the issue price.

1.4.6 Merchant Banker
Merchant banker is a body corporate who carries on any activity of the issue management, which consists of preparing prospectus and other information relating to the issue. They play a very important role in the IPO process and they have a role in post-listing period as well. Merchant bankers do the due diligence to prepare the offer document which contains all the details about the company. They are also responsible for ensuring compliance with legal formalities in the entire issue process and for marketing of the issue. Some of the important functions performed by merchant bankers in India can be listed out as under:

- **Educating the Applicant Company**: Merchant bankers inform and educate the applicant about capital market rules and regulations, the IPO process and post-listing requirements.

- **Due Diligence and DRHP Preparation**: The merchant banker is closely associated in preparing the new applicant's prospectus and other listing related documents. The merchant banker shall also conduct a due diligence.

- **Display of offer document on website**: The merchant banker shall display the offer document on its website after the final approval is obtained and the prospectus is filed with registrar of companies and the market regulator.

- **Market Making**: The merchant banker shall ensure compulsory market making through the stock brokers.

- **Underwriting Arrangement**: The merchant banker shall ensure that the issue is 100 percent underwritten.
• **Arrangement with Nominated Investors:** Merchant banker could enter into arrangements with nominated investors like private equity funds or QIBs for facilitating market making and underwriting. The merchant banker shall disclose its arrangements with nominated investors to the exchange in the final offer document.

Overall, merchant bankers are primarily responsible for carrying out the due diligence of the IPO company and disclosing their findings to the investors, especially, the retail investors to facilitate their decision making. In December 2012, the chairman of SEBI, the market regulator in India, has blamed the merchant bankers that poor IPO due diligence by them was primarily responsible for nearly two-third of the IPO issues belonging to the 2009-2012 period trading below market decline levels. The Chairman had further added that in the case of some IPOs, due diligence was not executed properly and the assets mentioned were missing or were not mentioned at all *(BL, 19/12/2012)*

1.4.7 Transfer Agent/Registrar

The role of the transfer agent is to maintain shareholder information. For example, the transfer agent will hold the name and address and the number of shares purchased by each shareholder. In an IPO, it is the transfer agent who handles the ownership transfer of shares to those who have indicated interest in purchasing shares. Similarly, when the stock begins trading, the transfer agent will handle the transfer of ownership of shares in every buy-sell transaction.

The registrar, on the other hand, ensures that the correct number of shares is exchanged when there is a buy-sell transaction. The company doing the IPO will typically hire an outside firm, such as a bank, to act as the transfer agent. In most cases, this firm will act as both the transfer agent and the registrar.

1.4.8 Bankers to the Issue

The bankers to the issue enable the movement of funds in the issue process and therefore, enable the registrars to finalise the basis of allotment by making clear funds status available to the registrars.

1.4.9 Underwriter

Underwriters play a very important role in the execution of a successful IPO. The managing underwriters are the investment bankers who run the IPO show. They determine the price of the offering, help draft the prospectus and other filing documents, conduct due diligence, and most importantly find investors for the offering. In many
cases, the underwriter will continue to provide services even after the IPO process is completed. For example, the underwriter might advise the newly formed public company on matters such as mergers and acquisitions or debt borrowings or they might even provide price stabilisation to the newly listed shares of the company by way of buying back of shares in the aftermarket if the aftermarket price is far below the issue price.

The managing underwriters will also assemble a group of syndicate underwriters. It is the syndicate that helps sell the IPO’s stock to the public. The main reason for the formation of syndicate is to share liability – for example, if there is a shareholder’s lawsuit, the liability can be dispersed. It is hard to exaggerate the importance of an underwriter. Having the right one in place can mean the difference between a successful IPO and a failed offering. Interestingly enough, the underwriting business is the prime source of revenue for securities firms.

There are two main types of underwritings in an IPO as discussed below:

- **Firm Commitment**

Under this, the company going public, first sells the specified number of shares at a given price to the underwriter and the underwriter, in turn, has to sell these shares to the investors. If the underwriter could sell these shares at a higher price to the investors than at what it was sold to him, the difference is the profit for the lead underwriters, which is then shared with the members of the syndicate. On the other hand, however, if the underwriter sells the shares to the investors at a price lower than the one at which he purchased them from the IPO company, then he has to share this loss with the members of the syndicate. Thus, the underwriter himself is fully committed to the marketing of shares once he purchases them from the issuing company.

It is common for underwriters to get warrants as compensation for services too. A warrant is the right to buy stock at a certain price – which is usually at a premium to the offering price, such as 20 percent – for a specific period of time (1-5 years). The warrants may account for 10 percent of the original offer size. A firm commitment offering will also usually have an overallotment option (also called green shoe option). This means that if there is tremendous demand for the IPO shares, the underwriter can issue additional shares, up to a maximum of 15 percent of the total stock issued. A firm commitment offering is risky for the underwriter. If it has problems selling the issue, the underwriting firm will be left holding large amounts of stock that no one wants.
• Best Efforts

As the name implies, best efforts means the underwriter will try to sell the offering. But there is no guarantee. Usually, best-efforts offerings are seen for small companies that have difficulty raising money. From the investors’ point of view, a word of caution is required while considering the best-efforts offering. After all, it should be troubling if an underwriter does not have enough faith in a company to do a firm-commitment offering. Actually, the majors and mid-sized firms do not encourage such best-efforts offerings, only small firms do.

1.5 The IPO Process

Every capital market in the world has its own regulating agency to regulate the activities in the capital market – both in the primary and secondary markets. For example, in the U S, The Securities and Exchange Commission (SEC) enforces two main laws – Securities Act of 1933 and Securities Exchange Act of 1934. In India, The Securities and Exchange Board of India (SEBI) is the regulatory body regulating the activities in the capital market through its Securities and Exchange Board of India Act of 1992. Companies going public have to adhere to the guidelines of such regulatory agencies. Also, these laws are important because they dictate the logistics of the IPO process. The typical stages in the IPO process could be listed as below.

1.5.1 Due Diligence

Before an IPO can get rolling, underwriters for the IPO are expected to perform due diligence on the IPO company – an extensive investigation. They visit the company offices, conduct interviews with officials, analyse the financial statements of the company, scrutinise the correctness of the accounting procedures practiced by the company, and consult with the auditors. Some underwriters may even talk to the regular customers and suppliers of the company to understand the past history and future prospects of the company. Conducting such an in-depth due diligence investigation is very much required to minimise the legal risk on the part of the underwriters in the later stage, because if the statements made in the prospectus are found to be false, the underwriters would be held liable for such mis-statements, just as the company itself is liable. If, after due diligence, the underwriters are satisfied with the company’s prospects, and are willing to take the company public, a letter of intent will be drafted and signed.
1.5.2 Letter of Intent

A letter of intent is an understanding between the IPO company and the underwriter. It sets forth the tentative terms of the relationship, like the percentage of ownership, minimum/maximum amount of money to be raised in the issue, guidelines for the underwriter, guidelines for the company, compensation for the underwriter etc. The letter of intent also establishes a range for the offering of the issue. Since it may take quite some time to get approval for the offering from the regulating authority, it may be impossible to determine the exact price of the offering at this stage.

A letter of intent is little more than an agreement to agree. It is not a binding contract. A final agreement is not usually signed until the day before the offering. The company’s responsibility to pay all the fees for professional services, however, is binding after the letter of intent is signed. Though cancellations are rare, the collapse of an IPO can leave the company with unbearable expense. The final underwriting agreement is identical to the letter of intent except for the addition of the final stock price and number of shares to be issued. There will also be a need to have an agreement among the underwriters of the underwriting syndicate. Such an agreement expresses the number of shares to be allocated among the co-managers and syndicate underwriters and enumerates the compensation breakdown.

Deciding the price of the issue (price band in case of book-built issue) is one of the most complex tasks before the underwriter in enabling a firm to go public. In doing so, the firm and the underwriter will look at factors such as the valuations of prior IPOs in the same industry, and the company’s stature within its industry. If the company has a proprietary technology or tremendous market share, there may be premium to the valuation. But, ultimately, the pricing tends to be more of an art than a science. The securities should be priced neither too high which would deter investors, nor should it be priced too low which would result in substantial underpricing and consequently huge loss to the issuing company. In fact, the experience with most of the offerings worldwide is that the IPOs are typically underpriced to encourage investor participation. When the stock is offered, the price will often make a big jump on the first day. It is not uncommon to see the stock price soar 30 to 40 percent almost immediately on the listing day. At one time, it was considered an embarrassment to have such a major price increase on the first day, because it meant that the company could have raised much more money, but it is now becoming standard practice to witness these huge premiums (source: Taulli (2000)).
In some cases, there are selfish reasons for underpricing. Planning for a huge premium, for example, makes it easier for the underwriters to engage in the questionable practice of spinning. Spinning is a strategy by which an underwriter allocates a certain amount of IPO stock to his potential clients (usually companies that are headed for IPOs themselves in the near future) or mutual funds affiliated to the underwriter. By spinning lucrative IPOs to potential clients or to affiliated mutual funds, underwriters are hoping to get more business either for themselves or for their affiliated mutual funds in the future.

1.5.3 Drafting the Registration Statement

After the letter of intent has been signed, the registration statement must be drafted and filed. There are two parts to the registration statement: a) The prospectus and b) additional information, which includes summaries of the expenses, insurance for officers and directors, the underwriting agreement, etc. Drafting the registration statement is a time-consuming task. The first step in the process is called the ‘all-hands’ meeting in which all participants to an IPO (management, attorneys, underwriters, auditors, etc.) gather to mutuate the steps for creating the registration statement and are assigned their specific tasks. The most important document in a registration statement is the prospectus, because it is the tool that is used to sell the offering to the investors.

1.5.4 Filing the Registration Statement

After the registration statement is drafted, the issuing company may arrange for a pre-filing conference with the regulatory agency. The purpose of such conference is to allow the company to discuss the details of the offering with the regulators. This may save much of time and money on the part of the issuer, since the officials of the regulatory agency will provide guidelines on what information the company should disclose.

After such pre-filing conference with the officials of the regulatory agency, next the company will file the registration statement, after making necessary modifications, with the regulatory agency. At the same time, filings will be made with the stock exchanges on which the shares of the IPO are proposed to be listed. Its approval of the registration statement will take some time, which depends upon the workload of the officials of the regulatory agency, and the complexity of the deal. Before approving the filing, the authorities will usually have questions about the offering that are communicated through what are called ‘comment letter’.

1.5.5 The Road Show

Also known as the ‘dog-and-pony show’, the road show allows the issuing company to generate interest from brokerage firms and institutional investors for the IPO. For
approximately two to three weeks, the senior officials of the company will visit financial centres, mutual funds, and institutional investors to give presentations about the IPO. During such presentations, the audience may clarify their doubts about the issue.

1.5.6 Securing Investors

Even before the regulatory agency approves the registration statement filed with it, the issuer and the underwriter may start distributing the preliminary prospectus among the potential investors to generate interest. At this stage, the preliminary prospectus is known as the red herring prospectus. Some companies choose to wait until after the first round of comment letters from the regulatory authority before releasing the red herring to investors, so as to avoid the chance of embarrassment of having to make significant changes to the prospectus. Members of the underwriting syndicate may use the red herring prospectus to begin locating investors for the offering. However, before a broker can even talk to a client about an IPO, he should provide the red herring for review. It is the only information that can be provided to the prospective investors at this stage. If the investors are interested in subscribing to the issue, they may sign an indication of interest. Indication of interest does not constitute a binding sale, because the price has not been established yet. It is not until the day of the offering that the sale becomes final. During the pre-approval time, the company is in its ‘quiet period’.

1.5.7 Choosing the Designated Stock Exchange/s

Before a company can issue shares to the public, it has to decide on which stock exchange/s the shares will be listed and traded post-IPO. Each stock exchange will have its own pre-requisites for allowing the listing and trading of shares of a company. The IPO company will have to comply with the requisites of the stock exchanges to list their shares on the exchange. In India, most of the companies going public prefer to list their shares either on BSE or on NSE or on both in addition to regional stock exchanges.

1.5.8 Finalisation of the Offer

Finally, the IPO is ready for prime time when the approval of the regulatory authority is finally got, the underwriting agreement is signed, and the price and number of shares are decided. During the period when the issue is open for subscription (between the issue opening date and issue closing date), the company is allowed to sell its shares to the public. In case of fixed-price issues, the investors have to apply for shares at the specific issue price. In case of book-built issues, the investors bid for shares at a price within the price band. Later, once the book is closed, on the basis of the demand generated during the book building process, the underwriter finalises the issue price in consultation with
the issuing company. Also, sometimes due to the poor demand generated during the
period when the issue is open, the issue price or the price band may be revised downward
and the issue closing date might be extended. Once the issue price is finalised and the
basis of allotment is decided, the IPO shares are allotted to the successful subscribers.
Finally, the shares will be listed on the designated stock exchange/s for the convenience
of trading in the secondary market. Once this process is complete, the company becomes
officially public.

1.6 IPOs and Investors
The first step in any smart investment decision is research. But the reality is that many a
times investors, especially individual investors, do not spend enough time in investigating
the soundness of their potential investments. Instead, they go by rumours, or rely on tips
from their neighbours and friends or from other questionable, unauthentic sources. No
doubt, tips from such sources sometimes might click and investors relying on such
information might prove to be lucky to make money, but relying on luck all the time is
risky. So the first lesson for any investor is: do not buy any IPO strictly on rumours. At
the other end of the spectrum, there are investors engaging in 'analysis paralysis'. Such
investors feel that in order to outperform the market or other investors in the market, one
has to have the most complex, state-of-the-art investment strategies, one has to use
esoteric investment vehicles, such as derivatives, and calculate extensive mathematical
formulas. But the reality is, an investor can earn handsome return on his investment
without indulging in these kinds of mental gymnastics. It has been shown time and again
that good investment strategy ultimately depends upon the common sense of the investors
to a great extent – as long as it is based on a foundation of sound facts. Today, in the era
of information technology revolution, more than enough timely information is available
to the investors to help them make sound investment decisions, and much of that
information comes free of cost.

Most of the information that the investors require in making their investment decision are
available in the IPO prospectus. The company is required by statute to disclose all
material information – the good, the bad, and often times, the ugly in the prospectus. The
investor can access either the hard copy of the prospectus from his broker or can access
the soft copy of the prospectus from the websites of the regulatory agencies or stock
exchanges. Prospectus are not hard to come by, reading them, on the other hand, is
another matter altogether. A prospectus usually used to be quite lengthy, in some cases the soft version runs up to several hundred pages, full of jargon, and filled with charts and graphs. There are different sections contained in the prospectus and even though the prospectus is crucial from the point of view of investment to be made in the IPO, some of these sections may not be all that relevant in making the IPO investment decision. Therefore, reading the prospectus and understanding the risk complexion and future prospects of the IPO investment is a skill on the part of the prospective investor. The important sections of the prospectus and their implications to the IPO investment are discussed here below.

1.6.1 Cover Page
This section consists of the name and address of the issuing company, its registered office, number of shares on offer, the issue price, size of the issue, issue opening date and closing date and such other details. In addition, this section also gives information about the designated stock exchange/s, risk in relation to the first issue, IPO grading obtained from the rating agency/agencies, names of lead managers and registrars, etc.

1.6.2 Introduction
This section covers a summary of the industry to which the issuing company belongs, the business of the issuing company, offering details in brief, summary of consolidated financial statements and other data relating to general information about the company. General information about the company, the merchant bankers and their responsibilities, the details of brokers/syndicate members to the issue, information on IPO grading in detail, book-building process in brief, and details of underwriting agreements are also given in this section. Important details of capital structure, objects of the offering, funds requirement, funding plan, schedule of implementation, funds deployed, sources of financing of funds already deployed, sources of financing for the balance fund requirement, interim use of funds, basic terms of issue, basis for issue price, tax benefits are also covered.

1.6.3 The Company Section
This section provides a review of the nature of business of the issuing company including details on products and services, its business strategies, competitive strengths of the company, industry-regulations wherever applicable, past history and corporate structure, main objects, details about the subsidiary units, details about the management and its board of directors, compensation package of the top executives, corporate governance, past dividend history and the dividend policy of the company, and management's
discussion and analysis of financial condition and results of operations. The section may also contain various surveys or research reports illustrating the market size for the company's products, and its target audience. This is a 'must-read section' for the prospective investors as they can have some idea about the attractiveness of their investment in the IPO shares. It is always important to understand the business the company is in before investing in its IPO.

1.6.4 Risk Factors

Another very important section contained in the prospectus from the point of view of prospective investor is the section containing the risk factors. The fact that a prospectus does not list risk factors, in itself, means that the IPO is a bad investment. In fact, a prospectus that fails to list any risk would probably never receive the approval from the regulatory authority. After all by nature, investments are never entirely free from uncertainty. Some of the typical risk factors that an IPO prospectus may contain are as follows:

- **History of Loan Default**
  
  It is common for a company to borrow money prior to an IPO. But, the default on such a debt is an indication that the company suffers from poor cash management. Since a default has a material impact on the company, it is a major risk factor to be considered before investing in an IPO. Such a default on the outstanding indebtedness shows that the company will probably go bankrupt unless it raises money from the IPO. The IPO, in other words, is really an act of desperation for the company. Therefore, when an IPO company is seen with problems in its debt structure, one has to be extremely careful. It is likely to be an investor time bomb.

- **Negative Gross Margins**
  
  This indicates that the company is not likely to make money for quite some time in the near future, if ever, or it is possible that such a company will never be profitable. Therefore, the investor should think twice before investing in any company that has negative gross margins.

- **Recent Transition to a New Business**
  
  This can mean that the company has lost its focus, and does not have clear goals for the future, or that it is moving into a business that it originally was not set up to pursue. It can be scary when a company decides to get into a new business – especially within, say, a year or so of its IPO. This makes it difficult to analyse
the business, since its prior history is not a good guide to the future. What is more, it is never easy to completely change the direction of a business. Such a process may be associated with risks, for the company and for its investors.

- **Legal Proceedings**

Another risk factor worth investigating is serious litigation pending against the company. The problem with litigation is that such lawsuits are difficult to quantify. After all, it is almost impossible to know how the court of law will decide a case, or how much it will award a company in damages. What is more, lawsuits can drain resources and divert the attention of management away from its business operation. Also, investors have to be cautious about any disclosure of legal problems involving the underwriter. An underwriter having been banned from financial activities can definitively hinder the success of the offering.

- **Prior Unsuccessful Public Offering**

At times, an IPO might fail. A company had filed its registration statement to go public earlier, but had pulled the offering from the market. Most of the times, because of poor response from the investing community, an IPO may be undersubscribed and consequently might be withdrawn from the market. However, the investors who had subscribed do not lose money in such a situation because the stock is not sold. This means that the company had trouble convincing investors to invest in the IPO on the previous occasion. That same company, after some time, try again to float the IPO. Investors have to be careful with such companies that try repeat IPOs; they can be very risky investments. Even though sometimes because of poor market conditions an IPO fails, at times there might be other reasons such as poor operating performance of the company, non-compliance with rules and regulations, that an IPO had failed initially. In such cases, even after floating the IPO on its second attempt, the shares might be traded at a very low price because of poor fundamentals of the company.

- **Inexperienced Management Team**

It is critical for a company to have a management team that knows how to deal with business complexities that might arise. Running a public company requires an experienced management team. Managers who are not qualified or experienced might cause major problems for the company and at times, the company might
land up in trouble because of the hasty decision taken by such inexperienced management team

- **Product Concentration or Limited Customer Base**
  An ideal candidate for IPO investment is a company with a potentially large, fast-growing market. This sounds obvious, but not all IPO companies are lucky enough or are designed to have diverse product offerings. Product concentration can be a major problem for young businesses. An IPO company may have only a few products, sometimes just one. And, if such a company’s singular product hits a sales slump, it can lead to overall underperformance for the company and consequently, the market price of its stock might fall. Similar to product concentration, reliance on a small number of customers limits potential for growth and chances to recover in an evolving, competitive market place. Therefore, prospective investors in an IPO have to be careful about an IPO company which has limited products in its product portfolio or having a narrow customer base. If the customer base dries up or they migrate to other suppliers or the product becomes outdated in the market, the impact of these can be substantial on the company.

- **Low Priced Stocks**
  If a stock in an IPO is offered at a very low price (called penny stock) such IPOs could be highly risky. The reasons for setting such low price could be poor fundamentals of the issuing company like inexperienced management team, unproved business models, and little capital with which to expand its business.

- **Technology Risk**
  Sometimes, the IPO company might be using a technology in its business/production process which is already outdated or other companies in the same industry are using better, sophisticated technology in their operation because of which they have cost advantage or are able to offer better quality products in the market. Even sometimes the government might be thinking of banning the technology currently being used by the IPO company because of environmental issues or because of its impact on the health of employees and customers. In such cases, investing in the IPO shares of such companies could be extremely risky from the point of view of long run performance of such shares.
• **Limited History of Profitable Operations**

Having history of profitable operations takes time for any company. In the initial years of its operations, a company will spend a lot of money developing its infrastructure, products and market share. However, over time, the company should be able to reach target market and achieve profitability. In fact, raising capital through an IPO should help accelerate the process of reaching the target market, but it takes time. For example, in the U.S., during the late 1990s, most internet companies had big losses in their early years. But many of these high-tech businesses that had gone public have recorded strong revenue growth and rapidly growing markets. Even though in the initial years these companies had registered losses, financial analysts were expecting that, over the next several years, these companies would become profitable. Because of this forecast, internet company IPOs have had the best performance of any sector during the internet bubble period of 1999-2000. So, just because a company is unprofitable for the short-term does not mean the IPO will fail. Rather, the key factor is that the expected future growth rate should be high. However, investors should be wary of those companies that describe long-term losses – over ten years or more. This could be a strong indication that the business will never be profitable *(source Taulli (2000))*

• **Competition**

Competition is another important risk factor found in almost every IPO prospectus which the investor may consider while taking his investment decision. Today, there may not be any industry without competition, in fact, the presence of competition can be positive because it indicates that there is a market for the company’s products and services. However, sometimes, competition can be extremely fierce, particularly in fast-paced industries like technology. In any case, it is a potential risk factor that investors need to be aware of. Reading this section can give investors a very good idea of the various players in the industry that are vying for market share.

1.6.5 Use of Proceeds

After the risk factors, the next important section to be considered in the prospectus of an IPO is the use of IPO proceeds. As the name implies, this section indicates exactly what the IPO company intends to do with the money it is going to raise in the IPO. In many
cases, this section might be vague. However, investors should look for certain things. For example, for how long the company estimates to survive on the infusion of IPO proceeds or whether the IPO proceeds are used to divest the stake of the insiders or promoters (issue of secondary shares). Sometimes, a major chunk of the IPO proceeds is earmarked for the repayment of outstanding debts which may be taken as an indication of dismal growth prospects.

1.6.6 Dividends
On most of the occasions, IPO companies may not pay dividends for the simple reason that they will invest the IPO capital back into their operations in order to accelerate growth. However, in some countries, certain industries pay dividends regularly because of the tax policy. For example, in the USA, the real estate investment trusts (REITs) are required by the law to distribute a major part of their taxable income in the form of dividends to the shareholders. At times, one can see a major dividend distribution around the time the IPO is initiated. This is always a one-time event with the purpose of providing liquidity for the owners of the company who, in many cases, founded the business years ago and are using the opportunity to cash in.

1.6.7 Dilution
Dilution is the difference between what existing shareholders (founders or promoters) and new shareholders (outside investors) will pay for shares. The existing shareholders usually pay a much lower price for the stock than IPO investors do. Dilution is common in all IPOs. However, sometimes it can be excessive.

1.6.8 Selected Quarterly Financial Results
Various bars and diagrams showing the income statement data broken down on a quarterly basis may indicate developing company trend. However, sometimes the graphical trend displayed by some of the quarterly data can be misleading. For example, a bad quarter may be the result of a cyclical factor and, therefore, may not be an indication of the deterioration of the company performance. Therefore, while analysing the results, the performance of a particular quarter may be compared against the performance of the same quarter in the previous year. If there are unusually high or low performances in a particular quarter, detailed analysis may be undertaken to understand the reasons behind it.
1.6.9 Liquidity and Capital Resources
This section gives some idea about the liquidity position of the company, what are the liquid assets held by the company and in which form they are held. Also, how much cash the company has in its bank account.

1.6.10 Business
The 'Business' section is a comprehensive description of the company, including a brief summary of the business, size of the market, company products and services, a description of Research and Development activities, the number of employees, and a list of top customers.

1.6.11 Management
This section lists the senior managers of the company and the board members. Each may be described in brief like their age, academic qualification, working experience etc. Their prior experience in running similar public companies may be given more importance by the prospective investors. However, investors should be careful about companies with a senior executive who is currently working for or used to be part of the investment bank that is managing the IPO. Such double role played by the executives might lead to unethical practices to safeguard their personal interest rather than running the company for the long term. At the very least, there may be the potential for conflicts of interest. Also, one has to be cautious of companies that have senior managers in the board who are related to each other. If, for example, the young and inexperienced CFO of the company is the son of the founder/CEO of the company, then the company could run into trouble because of the diversion of the funds or misappropriation of funds.

1.6.12 Certain Transactions
This section may show the history of the financing of the company, including the role played by the angel investors and venture capitalists. If the IPO company is having angel investors with strong industry experience or venture capitalists with good track records, this could be taken as a positive sign by the prospective investors. Sometimes, the reader might notice evidence of conflict of interest. For example, the company might have lent money to some of the senior executives. Or, the company may be doing business with another firm which is owned by a senior manager. In such cases, the IPO company may not get the best deal while doing business with those parties because of the conflict of interest, which could ultimately hurt the shareholder value.
1.6.13 Shares Eligible for Future Sale

In the case of some successful IPOs, around six months after the IPO, there might be a sudden fall in the market price of the securities without any apparent reason. The reason for such a fall in the market price of the security could be that the lock-up period has expired and company insiders are cashing in some of their stake. A lock-up provision, disclosed in this section of the prospectus, gives control of the company’s stock to the underwriters for a limited period of time. Essentially, venture capitalists, founders, and other senior executives of the company are restricted from selling their stock for about 120 to 180 days to prevent major selling pressure and thus a fall in the market price. When the lock-up period expires, however, the founders and insiders holding stock in the IPO company might start selling, which might result in a steep decline in the secondary market price of the securities. Therefore, investors at the time of subscribing to an IPO should be aware of the lock-up expiration date and realize that they may see some shares changing hands and some price movement at the expiration of lock-up period.

1.6.14 Index to Consolidated Financial Statement

This last section of the prospectus includes the full financial statements of the company. The income statement shows the company’s sales (revenues) and expenses over a period of time. Next, the balance sheet lists company’s assets, liabilities, and equity. To conclude, the IPO prospectus is an investor’s best friend. It contains most of the information that he/she needs to take his/her investment decision. However, in addition to the information available in the prospectus, the investors can also make use of other information available from different sources. There are independent analysts and finance magazines like Dalal Street Journal or Capital Market in India, rating the prospects of different IPOs that come to the market and publishing their assessment for the benefit of retail investors. Regulatory agencies in different countries are trying to educate the investors, creating awareness among them about their investment programmes. For example, SEBI in India has made the grading of IPOs compulsory. Even though, it is not a recommendation, this could be a valuable input for the investors in their IPO investment decision. Overall, a prospective investor can consider all these inputs while taking his IPO investment decision.
1.7 IPO Issue Methods

Worldwide, different capital markets have been following predominantly three different methods of issuing IPOs. They are:

- Fixed-Price Public offer
- Auction Procedure
- Book-Building Procedure

In the case of fixed-price procedure, the issue is offered at a fixed price to the investors and more importantly, this price is decided even before the issue is opened. The investors apply for the issue specifying the number of shares they desire at the fixed offering price. In case of auction procedure, a minimum acceptable price is set by the underwriter and the issuer, a few days before the IPO date. After collecting the bids, the market authority computes a cumulative demand curve. The issuer and the underwriter then negotiate with the market authority to choose the offer price and a maximum price. The offer price is a common price that every selected investor will pay for his shares. All bids greater than the maximum price are eliminated. This maximum price is chosen so that ‘unrealistic bids’ are eliminated. The bids that are considered unrealistic are the ones that are well over the clearing price. This is done in order to prevent investors from placing bids at very high prices to make sure that they will obtain shares. This is coherent with the goal of the procedure: the investors place bids that reveal their true valuation of the IPO firm.

Investors that have made bids at prices between the offer price and the maximum price receive shares on a pro rata basis.

Book-building is basically an issue mechanism used in IPOs for efficient price discovery. In the case of book-building procedure, first, the issuing firm and the underwriter jointly set a price range known as price band with the floor price and the cap price. During the period for which an issue is open, bids are collected from investors at various prices, which are above or equal to the floor price. The offer price is determined after the bid closing date. Once the offer price has been set, the underwriter, who selectively chooses among investors, allocates the shares. The major difference between book-building and fixed-price public offer is that in case of book-building, securities are offered at prices which may be either equal to or above the floor price going up to the cap price, whereas securities are always offered at the pre-determined price in case of fixed-price public offer. In the case of book-building, the demand can be known on a day-to-day basis as the
The minimum and maximum period for which bidding will be open is usually three to seven working days respectively, extendable by three days in case of a revision in the price band. A unique feature of the book-building procedure as in the US is that the initial price range is often revised either upward or downward depending upon the indications of interest received during the road show.

Historically, considerable differences existed in mechanisms for IPO pricing and allocation across countries. While in the US, the book-building route has been predominantly followed for IPO pricing for a long time now, the fixed price open offers have also been used in many countries. In France, multiple mechanisms such as fixed price, auction, and book-building are followed for IPOs. Prior to 1997, only price-discriminatory auction method was used for IPOs in Japan. Whatever be the issue mechanism, the differences are not likely to play a very significant role. In most countries, the underwriters have discretion in allocating IPO shares. (Chaturvedi et al. 2006)

A key characteristic of IPOs is that the shares are difficult (and therefore costly) to evaluate. There are no past analyst reports to read and no market prices to observe. Corporate insiders have a clear, absolute advantage in terms of their knowledge of existing assets and past performance, but valuation requires more than just this. Valuation also involves forecasting the future of the company, its competitors, and the industry as a whole and evaluating the quality of management and its strategic vision. The ability to control access to IPO shares (through the advance gathering of indications of interest) makes book-building more popular among the issuers and underwriters. In fact, there is an international trend in IPO market toward the increased use of book-building. Relative to the other two alternative IPO methods—auctions and the open offer or fixed price method—a key feature of book-building is that the underwriter has total discretion in allocating shares. The allocational discretion given to underwriters in book-building method is also what makes it possible for underwriters to have long-term relationships with regular investors. The ability to control allocations through book-building includes the ability to pre-commit to specific allocation and pricing rules. In contrast, auctions require the allocation of shares to be based on bids, without regard to any past relationship between certain bidders and the auctioneer. Similarly, the open offer or fixed price method normally includes ‘fairness rules’ which allow discrimination only on the basis of order size (Sherman 2000). Under auctions or fixed-price public offers, underwriters are free to do road shows and to ask for indications of interest. However, without the ability to make allocations dependent on the information reported,
underwriters have no way to give investors the incentive to accurately report their information, as was first discussed in Benveniste and Spindt (1989) and Benveniste and Wilhelm (1990) (cited in Sherman (2005))

In the U.S., among all the IPO issue methods, book-building has been the primary method, but for decades, it has been generating controversy because it allows shares to be preferentially allocated. Investors have often been complaining that they are shut out of the allocation process, calling for changes that would give every investor a fair chance. After controversies about spinning, laddering and other questionable IPO allocation practices, the New York Stock Exchange/National Association of Securities Dealers IPO Advisory Committee recommended in 2003 that possible regulatory impediments to IPO auctions be eliminated. In 2004, the well-known search engine company Google announced that it would go public through an auction, instead of the traditional book-building U.S. route (Sherman (2005)). Outside the U.S. also, uniform price (fixed price) and discriminatory IPO auctions have been tried in many other countries, but virtually all have abandoned them. IPO auctions were tried in Italy, the Netherlands, Portugal, Sweden, Switzerland, and the U.K. in the 1980s and in Argentina, Malaysia, Singapore, Taiwan, and Turkey in the 1990s, but they were abandoned years before book-building became popular. IPO auctions were most robust in France, being used alongside both fixed price public offers and a restricted form of book-building for many years. Even in France, however, IPO auctions were abandoned once standard book-building public offers were allowed. The abandonment of the IPO auction method has occurred across a variety of cultures and market conditions, across variations in the regulatory and procedural details, and regardless of whether the final decision was made by issuers or by regulators (often in response to complaints from investors) (Sherman (2005)). Derrien and Womack (2003) find that, by requiring the offer price to be set too far in advance, France’s earlier sequential hybrid book-building method led to higher initial returns (underpricing) than either auctions or pure public offers. Jagannathan and Sherman (2004) examine the IPO methods used in 47 countries and find that book-building, which was rare outside North America in the early 1990s, has later become popular and common around the world (cited in Sherman (2005)).

Modelling two of the three main global IPO methods—auctions, which do not allow the underwriter to control either price or allocations, and book-building, which allows underwriter to control both, Sherman (2005) reports that partial adjustment to public information occurs because expected underpricing compensates investors for their time.
spent evaluating an offering, and the opportunity cost of that time depends on the returns to other current IPOs and SEOs as well as to traded stocks. Controlling both price and allocations, through book-building, brings two advantages. First, it allows the issuer to induce the optimal amount of information acquisition (whether that optimum is high or low). Second, it allows the issuer to control the number of participants, thus reducing risk for issuers and investors. Analysing information acquisition in uniform price auctions and fixed-price public offers, Chemmanur and Liu (2003) report that fixed-price public offers allow issuers to control price but not allocations, whereas standard auctions do not allow issuers to control either (cited in Sherman (2005)). Thus, Sherman combined with Chemmanur and Liu explain the patterns of issuer choice shown in Jagannathan and Sherman (2004) that issuers prefer fixed price to auctions and book-building to fixed price, making auctions a distant third among IPO methods. Chowdhry and Sherman (1996b) explain a global phenomenon: the tendency for large orders to be favoured in book-building and for small orders to be favoured in fixed price public offers. Study shows that, among risk-averse investors who are identical ex ante (same wealth, preferences, opportunities etc.), those who become informed will optimally place larger orders than those who remain uninformed. In a fixed-price offering, information collected during the subscription period arrives too late to be used in pricing the offering, so it is optimal to favour small orders to reduce the risk that the offering will fail. For book-building, information that is revealed during the marketing stage can be later used to set the price, so it is optimal to favour large orders by informed investors to induce information production.

Ljungqvist and Wilhelm (2002) find evidence that underpricing is “directly related to information production” and that discretionary allocations promote information acquisition. Comparing book-building and fixed-price method, Ljungqvist et al. (2003) find that book-building leads to lower underpricing when conducted by U.S. banks or targeted at U.S. investors. Pichler and Stomper (2003) demonstrate that book-building could reduce the information asymmetry regarding the value of an IPO (cited in Sherman (2005)). Sherman (2000) shows that IPOs are underpriced to compensate investors for the cost of evaluating issues. Because of the one-price rule, uninformed investors (who have no evaluation costs) receive excess returns. However, in a repeated setting, the underwriter reduces these excess returns by requiring uninformed investors to accept overpricing of cold issues in order to remain in the regular investor group that purchases future issues. The underwriter forms regular groups of both informed and uninformed
investors The more IPOs that an underwriter expects to handle in the future, the more it can reduce underpricing of the current offering. These results are consistent with the popular sentiment that allocating shares only to regular investors prevents the general population from sharing in high returns. Uninformed investors in this model are indeed receiving unearned excess returns, but the reason that access is limited to regulars is to limit the losses of the issuer and underwriter. One implication of these results is that the role of the underwriter is substantially reduced in the auction and open offer systems, where the underwriter cannot give preference to a group of regular investors. This is true even for hybrid offerings, where book-building is used to gather information from institutional investors but open offer is used for retail investors. This model implies that hybrid issues will lead to more underpricing than straight book-building.

Biais et al. (2002) analyze the optimal IPO mechanism in a multidimensional adverse selection setting where institutional investors have private information about the market valuation of the shares, the intermediary has private information about the demand, and the institutional investors and intermediary collude. The study models an optimal IPO mechanism which can be interpreted as an abstraction of the auction-like IPO method. According to the model, underpricing arises, but it is not driven by the Rock (1986) winner's curse effect, rather it corresponds to the necessity to leave an informational rent of the intermediary.

Overall, even though there are three major IPO issue methods practiced in different countries of the world which are quite different from each other, empirical studies have shown that book-building procedure is the widely practiced IPO method and is becoming increasingly popular, especially because it gives the underwriter discretionary power in allocating shares in the IPO. This book-building method is even replacing auction procedure or fixed-price public offer in different countries of the world.

1.8 Investment Strategies for IPO Investors

All great investors have philosophies that direct their trading. Warren Buffet, for example, looks for stocks that have strong brand names, substantial market share, and top-notch managements, the famous Peter Lynch's philosophy is similar. William Nasgovitz, manager of Heartland Small-Cap Contrarian Fund, chooses small, domestic stocks that he believes are undervalued (source: Taulli (2000)). This section deals with
different investment strategies that IPO investors may consider. Some of these strategies are as follows:

1.8.1 Neighbourhood Investing

Many a times, a great IPO might be happening right in the backyard of the investor. Local companies may offer tempting investment opportunities because investors will have first-hand knowledge about the business and easy access to research. Probably, the prospective investor is even a customer who knows the management personally. At the very least, close proximity to a company that is going public allows investor the opportunity to visit the company’s operations and make a first-hand judgment of their environment. In case the investor visits the offices or production plant of the company going public, he gets an opportunity to notice some of the issues like whether the employees look busy and content or whether the products are of good quality and whether the investor himself uses it or simply whether the facilities are neatly and cleanly organized, etc. The investor may also have a talk with the employees of the company to know their feedback about their company. Of course, visiting the company personally may not provide all the answers that an investor needs to invest in an IPO, but it will definitely give him a head start.

Another great source of information on regional companies going public is the local newspapers and media. The investor will typically find in-depth business and feature coverage on local companies in the local media.

1.8.2 Investing in the Familiar Sector

It is a good idea to invest in the industries that the investor understands best. For example, if the prospective investor is a trader dealing in FMCG, then he will have insights into the FMCG industry. As a result, he will have as much insights into the future prospects of this industry as the analysts themselves. Also, the investor is in a great position to determine more easily the upside of companies in that field. Sometimes, the investor can also use his knowledge about an industry as a customer. For example, if the investor is a regular buyer of a particular brand of apparels, then he may be in a better position to understand the market position and future prospects of that particular company in case it goes public. Consequently, he can take a sound decision regarding his investment in the IPO shares of that particular company. Although this is only one of the many screens, it is one that everyone can start with.
1.8.3 Study Mutual Fund Holdings

Mutual funds are one of the important institutional investors in IPOs. One simple strategy for the individual investors, therefore, is to examine the top holdings of such funds in the IPOs. The fund managers usually invest in the IPO shares only after studying the fundamentals of the IPO companies and being convinced that the IPO shares are underpriced. Therefore, if particular IPOs are good enough for portfolio managers, they might make sense in the personal portfolio of individual investors too. However, there is a possibility that the lead underwriter, sometimes, allocates cold IPOs (IPOs with weak aftermarket demand) to affiliated mutual funds so as to prevent further fall in the aftermarket price. This is, in fact, the dumping ground hypothesis tested by Ritter and Zhang (2007) though they did not find support for this. Therefore, individual investors should not exclusively go by the investment strategy of the mutual funds, this may not be a substitute for the individual research to be carried on by the investors. After all, even portfolio managers might pick lemons at times.

1.8.4 Watch What Analysts Say

After a company goes public, an investor might have a close watch of the 'buy recommendations' issued by the brokerage firms to their regular clients. If possible, the investor can request the brokerage firms requesting these reports. Although the investor should not base his investment decision solely on this coverage, no doubt, it is a valuable source of free research. However, in many cases the underwriter to an IPO will have its own affiliated analysts who may publish favourable recommendations even though the IPO is overpriced. In such cases, a word of caution is required while considering their recommendations. And if an analyst who was involved with the offering comes out with a negative recommendation on the stock, this could be a serious indication that the company is in trouble. The bottom line is that it is very useful to review the recommendations of such analysts, but it is also important to maintain a healthy scepticism regarding their 'buy' recommendations.

1.8.5 Subscribe at Issue Price or Wait for the Lock-Up to Expire

If the investor is allotted shares at the offering price and if the issue is a hot issue, then it makes sense to participate in such IPOs. A hot issue is an IPO that increases in value immediately on listing the IPO shares. So investors holding such hot IPO shares at the offering price can become wealthier immediately on listing. Buying shares in a hot IPO at the offering price can mean a very quick profit for investors if their shares are sold quickly on listing. When investors do this, it is known as flipping. Underwriters,
however, do not look kindly on flipping because it causes price volatility. In fact, they penalise investors who flip by not offering them shares in a future IPO. Even though it is very difficult to spot a hot IPO in advance, an investor may look for some of the following factors in spotting a hot IPO:

- Several days before the IPO, the underwriter has increased the price and the number of shares for the offering.
- Brokers indicate that there are no more shares available.
- Investor has heard a good deal of buzz in the press about the IPO.

However, if the investor is not allotted the IPO shares at the offering price by the underwriter due to oversubscription, but the investor wants to purchase these shares in the secondary market, the smartest thing he can do is to follow ‘wait and watch’ policy. In many cases, shares of an IPO company will eventually come back to its offering price or even below, at some point in its trading life. The main reason for this is that when a company goes public, there is tremendous excitement. As a result of the hype, the stock will jump to a great deal. But as the time goes by, the hype subsides and the stock price comes down. Unfortunately, there is no scientific formula for buying into an IPO shares in the aftermarket. But there is one sensible approach the investor can wait for about six months from the effective date of IPO before buying the shares in the aftermarket. Because, this is about the time the lock-up period expires which means that the executives and other insiders of the company are eligible to sell their stake in the secondary market. This increases the supply of shares in the secondary market and hence puts downward pressure on the stock price. As a result of this, the investor may have an opportunity to buy the shares at a very reasonable price.

**Need for the Present Study**

The decade of 1990s will go down as the most important decade in the history of Indian capital market. Several changes took place in the capital market as part of the financial liberalisation initiated by the government of India (GOI). The Capital Issues (Control) Act 1947 was repealed in May 1992 putting an end to the regime of Controller of Capital Issue (CCI) and allowing the free pricing of public issues. In the place of CCI, SEBI was set up in 1992 and entrusted with the responsibility of regulating the capital market activities. Overall, the decade was characterised by a new industrial policy, emergence of
SEBI as the market regulator, advent of foreign institutional investors (FIIs), euro-issues, free pricing, new trading practices, new stock exchanges, entry of new players such as private sector mutual funds, private sector banks, and private sector insurance companies. Taking advantage of the abolition of CCI and introduction of free pricing, a large number of companies visited the primary market with their IPOs. The post-2000 period also saw several milestones in the Indian capital market. The book-building method of issue became increasingly popular among the issuers. As part of the disinvestment strategy of the government several PSUs, including nationalised banks, came out with IPOs and FPOs. Because of the encouragement given by the government for infrastructural development during the eleventh five year plan, many companies from the infrastructure sector especially power, housing development, telecommunication, came out with public issues. Of late, SEBI has introduced several revolutionary concepts in the Indian capital market like application supported by blocked amount (ASBA), grading of IPOs for the first time in the entire world, the concept of anchor investors for IPOs. Very recently, SEBI has proposed the introduction of safety net for investments in IPOs. All these developments are expected to change the outlook of investors, especially retail investors, who have stayed away from the capital market activities after their bitter experiences during the 1990s.

39 IPOs respectively Madhusoodanan and Thirupala Raju (1997) studied short run and long run performance of 1,922 IPOs that went public between 1992 and 1995 Garg et al (2008) studied underpricing of 126 IPOs belonging to the period 2000-2006 Therefore, there is a need to study both initial and long run performance of Indian IPOs using a large sample belonging to the decades of 1990s and post-2000

Objectives of the Study
The present study is conducted with the following objectives
1. To ascertain the listing day performance of IPOs in India
2. To analyse the listing day performance for various cross-sectional groups
3. To ascertain the post-listing aftermarket performance of IPOs in India
4. To analyse the post-listing aftermarket performance for various cross-sectional groups
5. To analyse FPO pricing in India
6. To make suggestions for future study

Hypotheses to be Tested
The study examines the initial and long run performance of IPOs Also, it examines whether FPOs in India are underpriced and whether the investors can earn abnormal returns around the opening of FPOs Therefore, the hypotheses being tested by the study are
1. The IPOs are not underpriced based on the listing day performance
2. Investors cannot earn abnormal returns from IPOs in the post-listing period performance
3. There is no significant underpricing of FPOs
4. Investors cannot earn abnormal returns in the period surrounding the opening of FPO issues

Chapter Scheme
Chapter 1: Introduction: This chapter deals with the concept of IPO, reasons why companies go public, the pros and cons of going public, major steps to be followed in going public, and various parties involved in taking a firm public The need for the present study, objectives of the study, hypotheses to be tested, and the chapter scheme are presented in this chapter
Chapter 2: Public Issue Market in India: This chapter begins with an introduction to primary market activities in India, presents a brief discussion on pricing of public issues in India, role of CCI, criticism against CCI, abolition of CCI and the emergence of free pricing of public issues, role of SEBI in public issue market The chapter also discusses about the introduction of book-building process in India, and some recent developments in IPO market in India

Chapter 3: IPO Anomalies: This chapter discusses two of the most widely studied IPO anomalies, listing day underpricing and long run underperformance of IPOs The chapter also provides a discussion on various theories developed by researchers explaining underpricing, and long run underperformance of IPOs

Chapter 4: Review of Literature: This chapter is devoted to a detailed discussion on the findings of empirical studies, both in India and abroad, on various IPO and FPO related issues

Chapter 5: Research Methodology: This chapter discusses the research methodology used in the study The chapter provides details about the method of investigation, procedure used for data collection, criteria for sample selection, data source, research design, selection of market index for the computation of benchmark-adjusted return, and the test of significance

Chapter 6: Underpricing of Public Issues: This chapter deals with the analysis and interpretation of underpricing of IPOs, first for the whole sample, and then for various cross-sectional groups Chapter presents underpricing of IPOs using different prices on listing day, both raw and market-adjusted returns using various market indices Chapter also presents analysis and interpretation of FPO underpricing using the measures discussed in chapter 5

Chapter 7: Post-Listing Performance of Public Issues: This chapter discusses the post-listing performance of IPOs in the aftermarket, first for the whole sample, and then for various cross-sectional groups Long run performance of IPOs at 1 year, 3 years, and 5 years are presented and discussed Study also presents and discusses abnormal returns surrounding FPO issue opening

Chapter 8: Findings, Summary and Conclusions This chapter presents a summary of the empirical investigations carried out in the study and the conclusions that emerge from empirical investigation Major trends and implications of the findings of the study are highlighted Chapter concludes suggesting the potential areas for future study