CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

Primary market is a source of trade for the secondary market. A booming primary market provides more shares to be traded in the secondary market. At the same time a prosperous secondary market encourages to corporate or to access the primary market to mobilize funds. The investors preference to the particular issue depends on its price of equity and preference of the company industry and economy. The upward trend in the secondary market may encourage many issues to overprice the then issues. The performance of the issue after listing is a matter of interest for many researchers. Many studies have been conducted to review various aspects of the primary market naturally and internationally. Some of the relevant studies are reviewed in this chapter.

International Studies

Friend and Herman (1964) stated that the prices of shares issued after the establishment of Securities Exchange Commission (SEC) in USA performed better than those shares which were issued pre SEC era due to the lower level of volatility. They concluded that the investors in the share issued after SEC were better than those who invested in the shares issued before SEC came into existence.¹
Morin and Suarez (1969) in their study on Canadian households, found the evidence of increasing risk aversion in the new issue market with age although the household appeared to become less risk averse as their wealth increased.\(^2\)

According to Cohn et al., (1975) among different sections of investors, married individuals invest smaller proportion of their portfolios in risky assets than the single individuals, provided that other things being equal.\(^3\)

Lewellen et al., (1977) identified the systematic patterns of investment behaviour exhibited by individuals found age and expressed risk taking propensities of the new issue market to be inversely related with major shifts placed at the age 55 and above. The relative risk aversion increased with wealth and a wealth increased with age.\(^4\)

Arrow (1978) was on the view that older individuals invest smaller fraction of their wealth in risky assets as a by-product of the correlation between age and wealth.\(^5\)

Samuelson (1989) suggested that older individuals rationally reduced their risk exposure because they need to ensure that their savings provide sufficient means to satisfy the levels of minimum subscription.\(^6\)

Doo and Nam S.K(1998) in their study, “Short-Run Performance of IPOs of Privately and Publicly owned Firms: International Evidence”, compared the initial returns of IPOs after privatization with those of privately owned enterprises and analyzed the determinants of short-run performance of privatized IPOs, using a sample of 185 privatized IPOs from 30 countries from 1891 to 1997. The evidence
indicates that there was a general tendency for privatized IPOs to be under priced to a greater degree than the initial public offerings of privately owned enterprises.7

Huang Y.S (1999) in his study, The Behaviour of Initial Public Offerings on the Taiwan Stock Exchange, examined the price behaviour of the 311 IPOs on the Taiwan Stock Exchange for a period of 24 years from 1971 to 1995. This study found that IPOs were significantly under priced. The initial risk adjusted excess returns were 42.6 per cent. The initial risk adjusted returns were positively related to the over subscription ratio. The aftermarket performance was consistent with the efficient market hypothesis. The cumulative abnormal returns estimated by market model were not statistically significant after the initial trading. Further, the long-run performances of IPOs were not related to the initial risk adjusted returns.9

The paper entitled, IPO Effect and Measurement of Risk, by Knopf J.D and Teall J.L (1999), was concerned with the comparison of the Parkinson Extreme Value Method for risk measurement with other commonly used risk surrogates. The results of this study indicated that the Parkinson measure did explain a significantly greater portion of IPO under pricing than the other methods, suggesting that the other studies have underestimated the explanatory power of uncertainty to predict underpricing.9

Guirguis H.S, Onejie J and Rosen H (2001) studied the Post Offering Performance of IPOs in the health care industry in Indian context, taking a sample of 223 IPOs issued between 1985 and 1996. The study found statistically insignificant abnormal returns for IPOs relative to matched controlled firms. The results of the study supported the overall information efficiency in the IPO market. However,
numerical and statistical differences of the IPOs abnormal returns were documented in every sub group specified according to the issuance years and sectors. According to the authors, the differences were due to the growing threats of government intervention and structural changes.¹⁰

Marchisio and Ravasi (2001) conducted a survey on family owned companies of Italy. The result of the study was based on the responses of 54 family owned firms with 73% response rate) who went public during 1996-2001. The research question of the study was, “why do family owned firms do IPOs?” Specifically, authors investigated strategic motives behind going-public decision. The survey revealed that beside the usual financial motives, family owned firms go public to increase the visibility and to expand and strengthen the network of relationship that can sustain entrepreneurial activity.¹¹

Block (2004) carried out a survey on the US firms that went private between January 2001 and July 2003. Out of the 236 firms that went private, 110 firms participated in the survey (response rate 46.65%). The study investigated the reasons behind ‘going private’ decision of the firms and found that the following factors can motivate a company to become private again: a) the costs associated with being a public company in terms of pressure and time constraint on top management, b) absence of liquidity and c) threat of delisting by the stock exchange.¹²

Loughran T and Ritter J (2004) analysed the under pricing of IPOs in Germany Over time. Much of the higher under pricing during the bubble period (1999 to 2003) to a changing issuer objective function in the primary market. They argued
that in the later periods, there was less focus on maximizing IPO proceeds due to an increased emphasis on research coverage. Further, allocation of IPOs to the personal brokerage accounts of issuing firm executives created an incentive to seek rather than avoid underwriters with a reputation for severe underpricing.\textsuperscript{13}

Karaa A and Arab M B (2006) in their study entitled, “IPOs Initial Returns: Underpricing Versus Noisy Trading”, remarked that the presence of positive abnormal returns generated by IPOs explained the gap between the offer and the aftermarket price. The paper mainly analyzed the abnormal performance of the newly issued 59 stocks in the new market of Paris. The study also found that there was the under priced effect on the first trading day. The average underpricing adjusted abnormal returns showed evidence of noisy trading effect over the two trading days.\textsuperscript{14}

Brau and Fawcett (2006) conducted a managerial survey of 336 CFOs of the US firms which hitherto either a) had successfully completed their IPOs, b) had initiated their IPO process but later chose to call off their IPO c) were eligible to do an IPO but decided to remain private. Their survey sample of 336 CFOs was the result of a response rate of 18.1 per cent. The survey revealed that the acquisition purpose was a major factor that motivated the US companies to do IPO, issuers timed their IPOs to take advantage of prevailing market conditions and preservation of decision making control and ownership were the main reasons for remaining private. The major strength of their study was their large survey sample of 336 CFOs. However, the sample was derived from within a narrow time span of only two years, i.e., from 2000 to 2002. Due to the narrow time span used for deriving the sample,
their study did not allow for variations in managerial perceptions resulting from changes in market conditions and mechanisms over a larger time frame.\textsuperscript{15}

Arifuzzamanl S.M et al (2012) analysed the “Investors’ stock trading behavior of IPOs in Dhaka Stock Exchange”. Descriptive statistics was used in the stock trading behavior of investors of Dhaka Stock Exchange, explored the relationship between demographic characteristics and trading behavior, and examined the difference in trading behavior of stock traders with different demographic characteristics. Major findings of this study included that majority of the traders had an average holding period of IPOs less than a month, target for a minimum profit of 0 per cent – 40 per cent before selling stocks, could tolerate a maximum loss of 0- 40 per cent before selling their stocks. Traders preferred to the maximum amount of their investment money in the banks and financial institutions, invested more than 50 per cent of their investment money in the most preferred industry. It also found the major differences in trading behavior gender, age group and highest educational level categories.\textsuperscript{16}

**National Studies**

Levy and Sarnat (1971) examined 125 sample of primary issue as a combination of a bonus issue and issue at par to existing shareholders. They also showed that issue price and issue ratio is irrelevant in perfect markets.\textsuperscript{17}

Gujarathi M (1981) examined the question of the risk adjusted returns in the new issue market. As in all studies of new issues, the difficulty of estimating the risk (beta) of newly issued securities forces them to use a complicated methodology for
arriving at the risk adjusted returns. He concluded that investors in the new issues market in 1970’s earned an extra normal return of nearly 2.5 per cent per month.\(^{18}\)

Lall T (1990) suggested that public sector banks should be utilized as underwriter houses by those companies which go for IPO and the setting up of the firm underwriting form should be made on the basis of scientific lines.\(^{19}\)

Ashuman and Chandra (1991) examined the government policy of favouring the small shareholders in terms of allotment of shares. They argued that such a policy suffers from several lacunae such as higher issue and servicing costs and lesser vigilance about the functioning of companies because of inadequate knowledge. They suggested that there is a need to eliminate this bias in order to facilitate better functioning of capital market and strengthen investor protection.\(^{20}\)

Prasanna Chandra (1991) in his article captioned “Indian Capital Market: Pathways of Development” had observed a phenomenal growth of the Indian Capital. Capital Market had struck even in the eighties and novel innovations in the Indian Capital Market had emerged in the form of India funds, Mutual funds and Venture capital funds. According to them the new issue market developments were still insufficient in its operations.\(^{21}\)

Prakash Somayaji (1992) had analysed the environment of primary market in 1992. He had concluded that investing in primary market was not easy. The investors had to be specialists to choose the correct issue.\(^{22}\)
Halda P (1993) of the Prime Database had examined the primary market in 1993. The primary market was in its low, ebb in this year. His analysis showed that out of 73 companies only 20 were able to close their issues on the earliest closing dates. The responses from the investors to the issues were not appreciable.23

The Hindu Research Bureau (1993) had produced evidence that during the months of February and March 1993 though the number of issues floated were high; the responses from the market participants were not satisfactory. Even right issues had no exemption to this situation. The low level of responses from the existing shareholders to rights might be the reason that they had been priced extremely close to market price in many cases.24

Corporate Bureau of the Economic Times survey (1993) pointed out that the fundamental company position was questioned and examined with as much care by the existing shareholders in the case of rights as against in the case of any fresh investment.25

Murthy M.R and Puranik A (1993) in their article “Fuzzy details, flouted norms” had stated their views on issue expenditure. They argued that the amount spent as issue expenditure was made out of the shareholders contribution so that they had the right to know the manner in which their investment was utilized. To honor these rights, they stressed that proper as well as accurate (as far as possible) reporting of issue expenditure should be made. But, unfortunately the estimates of issue expenditure given in the offer document were, in most cases grossly underestimated.26
Ramananth S (1995) in his doctoral dissertation entitled, “A Study on Investors Preferences for Corporate Securities in Tiruchirappalli District, Tamil Nadu”, studied the investor’s attitude towards corporate securities in Tiruchirappalli District. The study tested the usefulness of select financial variables and investment variables to predict post issue performance of primary issues. The study suggested that investors should play an active role through their participation in the investors’ associations for mutual exchange of ideas and information.  

Gangadhar V and Yadagiri M (1996) analysed the trends and pattern of capital issues in India with references to pre and post economic reforms period and the impact of liberalization and economic reforms on the capital issues in India. The study found that liberalization and globalization policies have shown a significant encouragement both on the investing public and issuing corporate sector to achieve bullish tendencies in capital issues and capital market in India.  

Srinivasan (1997) had studied “Security prices behaviour associated with right issue”. The study revealed that rights issue of equity was seen as ‘bad’ news by investors, and a rights issue of fully convertible debentures was seen as ‘neutral news’. The pricing of rights issue were not important. The capital market is efficient with the exemption of an ex-right abnormally. There are a many instances of stock market crashes and bubbles in the past centuries, more recently the Wall Street crash of 1929 and 1987 crash in USA, indicated that the securities market is inherently prone to failures without mechanism for stability; it can cause severe hardships to the investors and consequently lead to misallocation of resources in the economy.
Rao M (1997) in his paper on, “Book Building – A Glimpse”, explained the concept, process and benefits of book building. The author remarked that the book building aimed to have the issue are sold and reduce the threat of under subscription. The concept is very much beneficial and advantageous to both the issuer-company and investors. The author suggested that to achieve a successful result in using the concept; individual persons or institution or government body should also follow the book building the process.30

A joint paper entitled, Short-Run Price Behaviour of IPO’s in India; Some Empirical Findings, by Baral S K and Obaidullah M (1997) examined a sample of 433 IPOs listed during free pricing regime of SEBI. Due to infrequent trading and high vanishing rate, the liquidity in the market was found to be very weak. The most widely held explanation that underwriter systematically under priced IPOs below their intrinsic value. IPOs subjected to overvaluation in initial offer seems to be more relevant.31

Madhusoodanan T.P and Thiripalraju M (1997) analyzed the Indian IPO market for the short term as well as long term under pricing. They also examined the impact of the issue size on the extent of under pricing in these offerings and the performance of the merchant bankers in pricing these issues during the year 1996 to 1997 with 247 samples. The study indicated that in general, the under pricing of the Indian IPOs in the short run was higher than the experience of other countries. The study also revealed that none of the merchant bankers showed better pricing capabilities.32
Raju T and Mishra G.S (1997) in their study on, “Prospects of Indian Capital Markets: The Primary Capital Market in India” described the developments of primary capital market in India between 1994 and 1996. The authors dwelt upon the changes in the regulatory system to give a boost to the primary market which had been dampened by some irregular deals.33

Sahi, (1988) in his paper “Capital raised by Non-governmental and Non-Financial Corporate Sector” had observed that equity shares accounted for nearly half (46 per cent) of the total capital raised during the year 1986-87. He also pointed out the decrease in the cost of capital raising in the year 1986-87 (cost of capital raising was 5 per cent of the total amount issued) as compared to the previous year, 1985-86 (cost of raising capital was 8 per cent of the total amount of raised capital)34

Rajarajan (1998) conducted a study, based on the primary data collected from 405 small investors in the Thanjur District during the period of 1997-1998 concluded that the relationship exhibited by the stage in life cycle with respect to risk bearing capacity of individual investors is in accordance with the theoretical model propounded by Milne and argument of ‘Arrow’ Samuelson and Bodies. The study concluded that stages in life cycle of individual investors is an important variable determining the size or investment in financial assets and the percentage of financial assets in risky category.35

Kakath M (1999) examined the long-term price performance of 500 initial public offerings (IPOs) during the period 1995 to 1998. In addition to this, he studied the price performance of 100 seasoned stock offerings. The study found that Indian
IPOs were under priced in the short run but overpriced in the long run. It is significant that the finding of this study was consistent with international evidences for IPOs. The author suggested that under pricing in the seasoned offerings in the short run was less pervasive than it was with IPOs. But in the long run, seasoned stock offerings performed as poorly as IPOs and appeared to be overpriced as well.\(^{36}\)

Tripathy N.P and Sahu P.K (2000) in their study entitled, Behaviour Dynamics of Indian IPO Market: An Empirical Analysis, attempted to find out whether a stock had been priced at its intrinsic worth or not and determine the magnitude and degree of deviations of the market price. The study concluded that Indian investors got very good returns from the initial public offerings only after some time in the market. General market condition was considered as a variable for the better performance of the new issues. However, under pricing at the IPO did not result in favourable treatment at the seasoned offerings.\(^{37}\)

Roy M.K (2000) conducted a study to analyze the questions relating to the behaviour of issuers and investors in a new issue market. The study showed that pricing for IPO was almost identical in all developed and developing markets subject to slight variations depending upon institutional and legal structure of the respective country.\(^{38}\)

Datar M. K (2001) in his study Private Placements: Market or Institution, studied the characteristics of private placements. Main objective of this paper is to study a few aspects of efficiency of private placement debt market in India. The paper explained cost of the access to private placements. It was found that in the absence of
secondary market trading in private placement, the mechanism functions more like institution rather than a market. Institutions are believed to have special advantages in information gathering, processing and monitoring the deals better and, if necessary, change them subsequently in private placement.\(^{39}\)

Nanda M.S and Sawyer K.R (2002) in their study focused the effect of market microstructure on the usual determinants of under pricing that is ex-ante uncertainty and information asymmetry. The results of the study were consistent for 361 IPOs between 1994 and 1995. It was established that returns on listing were high (average 101 per cent) reflecting a market risk and speculation dominated the fundamentals. The study also found that attributes such as promoter’s stake and earnings per share projections were the significant determinants of the returns on listing, reflecting the informational advantages of promoters and issuers. The study finally concluded that returns on listing vary from quarter to quarter and across par and premium issues.\(^{40}\)

Madhusudhan (2002) studied the new issue market in India and measured the performance of IPOs. The study revealed that the initial returns of IPOs in India was abnormally high and in fact returns was much higher than the average initial returns of other developed countries. The initial run was found to be extreme in the years 1991 and 1994 but the initial high returns, however, faded away over the period of one year after listing.\(^{41}\)

Muralidhar B and Vepa S (2002) discussed major primary capital market reforms and reaction of investors. They suggested that too much regulation was undesirable for any market. Transparency in mechanisms and educating investors
were urgently required instead of too much regulation. Development of capital markets was desired rather than control of markets.\textsuperscript{42}

Singh B and Mittal R.K (2003) examined the accuracy of sales and profit forecasts of companies newly listed on the Bombay Stock Exchange during 1992-1996. The study focused on three measures, viz, forecast error, absolute forecast error and the distribution of forecast errors. The analysis of the study showed, that both the revenue and earnings forecasts were optimistically biased. The majority of the new issues over-forecasted their performance. Finally, the study recommended that SEBI should continue its efforts so that the investor’s shattered confidence could be rebuilt and the goal of an efficient Indian IPO market can be achieved.\textsuperscript{43}

Majumdar U (2003) in his study covered the impact of opening and closing prices, the measurement of performance such as price performance in various phases of the market, impact to oversubscription, impact of risk and investment banker reputation in the public offering. The paper analyzed the way differences in institutional set up inhibit comparison of results of studies across the countries during the 2000 to 2001. The study had concluded that issues at par and issues at premium earn similar returns and their cross sectional variances were also similar. Finally, the author concluded that the aftermarket excess returns rose sharply for the first four days of trading and then tapered off to a slower pace.\textsuperscript{44}

Majumdar U (2003) in order to study the phenomenon in the Indian market at a time when the pricing norms had been liberalized had undertaken a study by paying attention for both the initial and the aftermarket price performance of IPO’s. This
study presented a clear picture to understand the affecting effect of institutional set-up while comparing the results of studies made across the country.\textsuperscript{45}

Singh B and Mittal R.K (2003) in the study of IPOs revealed that internationally observable phenomenon of IPO under pricing persisted in India too. The study found that general market conditions at the time of IPOs, reputation of lead managers, issue uncertainty represented by reciprocal of issue price, nature of industry and activity based classification of industry were not significantly associated with underpricing.\textsuperscript{46}

Kumar P.M.D and Raju G (2003), in their paper “Indian Capital Market – A Retrospect” explained that there was an all round development in the capital market operations in terms of the volume of funds through shares and debentures did not improve and many of the investors were interested in reducing their exposure to equity even in absolute terms rather than increasing it.\textsuperscript{47}

Swarup S (2003) surveyed the measures of improving common investor confidence in Indian primary market. He focused on the investors’ decisions in primary market issues, factors affecting the equity primary market and measures to improve primary market situation. The responses given by the sample of investors clearly demonstrated that the current market price was an important indicator before investing in new issues and the investors did attach any importance to investment advice from the broker for investing in primary market. It was found from the survey that investors paid attention to recommendations of analysts for investing in primary market.\textsuperscript{48}
Gaangadhar V and Begam A made a critical analysis of the capital issues in India. They discussed the aggregate investment pattern, ownership pattern, industry wise pattern and size wise analysis of capital issues in India. The study found that the decline in the number of public issues did not influence the decline in the value of public issue due to the fact that fifteen companies tapped the capital market through mega issues of IPOs. The study concluded that the maximum number of capital issues resulted from the size group of below Ministry ₹10 crores and the amount of maximum capital mobilized was in the mega size of ₹100 crores and above.49

Madhusoodan T.P (2004) studied the pricing of IPOs in the Indian context. The paper examined the impact of the introduction of Book Building on IPO pricing in the year 2003. The results suggested that IPOs were underpriced which was unavoidable in a market with information asymmetry and homogeneous beliefs among the investors. The principal compound analysis predicted that under pricing was more severe in the case of smaller issue sizes.50

Meera Mohinadeen P.M (2004), in his doctoral dissertation entitled, A Study on New Issue Management Services of Lead Merchant Bankers in India, examined the functioning of the merchant bankers in the pre issue and post issue management phases and evaluated the new issue performance of the merchant bankers. The conclusion of the study was that functioning of merchant banking in new issue management services assumed significance.51
Vanniarajan T (2004) made an attempt to discriminate the investors from non-investors on public issues. An association among the profile of risk and return and the investment preferences was found. This paper focused on the source of awareness towards public issues and the investors’ attitude towards various public issues. This study concluded that the investors did not have a favourable attitude towards shares because the investors lacked the knowledge about equity investment.52

Kumar S.A (2005) in his paper depicted the aspects of primary market that influence the confidence of the investors with reference to the retailers. The author viewed that introduction of book building process and green shoe option (GSO) were good move on the part of SEBI in the interest of small investors. But at the same time, few areas of the Book Building Process and GSO were not clear with the operators and they were not in a position to execute the controlling measure. The author concluded that to make the total process transparent, educating the investors for improved awareness of primary market was necessary. Many active investors’ associations should be provided with the information related to the risk associated with investment in shares and initial public offer rating by professional rating agencies.53

Rosen, Smart and Zutter (2005) conducted a sector-specific study wherein they investigated 240 US banks which completed their IPO between 1981 and 2002. The advantage of doing a study on banking sector was the easy accessibility of required data, even of the private banks. Unlike the other sectors, both public as well as private banks are required to disclose their annual financial data to the regulators.
The study concluded that the riskier banks were more likely to go public, the chance of getting acquired increased to probability of going public, the chance of becoming an acquirer also increased the probability of going public, and the banks went public to take the advantages of prevailing market condition.\textsuperscript{54} 

Syamali S (2005) examined the high profile advantages of the book building method. The study revealed that the book-building method appears to be evolving over the decade (1995 – 2004) in the Indian capital market. The study suggested that if the issuer company, the lead merchant bankers and the regulations discharged their responsibilities to the best interests of the investors, success through book-building would consolidate into a strong capital foundation of our economy. \textsuperscript{55} 

Selvam M and Sukanya (2005) in their paper, “Price Efficiencies of Initial Public Offerings in India”, studied the price efficiency of IPOs with references to 50 companies. There were totally 60 companies which employed IPOs, during the study period from 2000-01 to 2004-05. This study observed that among the new issues of all sectors taken for study, the issues of pharmaceutical industry generally realized positive returns (i.e after listing) except for one or two months.\textsuperscript{56} 

Agarwal S (2006) analyzed IPOs De-mat Mode and small investors. He raised provocative policy, issues such as SUN TV, B.L.Kashyap & Sons and Development Credit Bank who are the beneficiaries of IPOs in compulsory dematerialized mode. The study also put forth the failure of SEBI, depository and major stock exchanges in representing the problems of the small and marginal investors beyond lip service and cosmetic efforts like framing rules for orderly development of the capital market. This
study suggested that the small investors should be allowed to apply, hold and transact shares in physical mode.\textsuperscript{57}

Ghosh (2006) analysed the post offering performance of IPOs from the banking industry in the year 2005. The performance evaluations on the basis of stock returns did not find significant evidence of underperformance for the IPOs from the banking sector. Further, the study based on key accounting parameters, showed improvement in the performance of the banks in the post listing period. There was no significant difference between the banks in the post listing period. There was no significant difference across ownership groups (public sector Vis-a-Versa their private counterpart) in the IPO pricing performance.\textsuperscript{58}

Ghosh S (2006) made a comprehensive work on under pricing of IPOs between 1995 and 2004. He tested the implications of models like the book building; seasoned equity offers and sweats equity. The empirical findings of this study showed that there existed positive relationship between IPO under pricing and ex-anti measures of risk and volatility. It also showed that a subset of company’s decision to raise funds subsequently depended on the initial returns on the aftermarket returns.\textsuperscript{59}

Ghosh S (2006) brought forward the factors explaining IPOs under pricing, using 1842 companies that got listed on the Bombay Stock Exchange (BSE) from 1993 to 2001. Unlike the existing works, that analyzed the relation of ex-anti risk factors and under pricing. This paper also concentrated on the volatility of stock returns just after listing under pricing of Indian IPOs.\textsuperscript{60}
Arunachalam A (2006) analyzed the post listing returns. The subscription levels and offer made by public to IPO in the year 2005 was not as enthusiastic as in the previous year 2004. The former’s average listing gains were only 50 per cent against the latter’s 56 per cent. The pricing of offers had become more aggressive in line with the secondary market valuation levels, and this appeared to have reduced the scope of gains on listing. Another reason for the reduction on the scope of gains on listing, as stated by him, was the newly enforced regulatory requirements on FIIs.\(^{61}\)

Krishnan A and Sivakumar S (2007) had observed that due to the prevalence of a see-sawing stock market and the enforcement of restrictions by the SEBI on multiple applications made by the some IPOs had to lose made sheen among retail investors. There was a decline in the level of retail response on IPO in the year 2007 compared to the year 2006. The same had happened in the concept of over-subscription. The quantum of over-subscription had declined from an average of 191 times in the year 2005, to just around 5 times in the year 2006. It was found that the retail investors were applying for fewer shares in the year 2006 than they did in the year 2006.\(^{62}\)

Gangadhar V and Reddy (2007) G.N analysed the impact of IPO scam on capital market. The paper analysed the process adopted to create an artificial demand in share pricing in the IPO scam, also examined the impact of the above said scam on the primary market and suggested the measures to prevent IPO scam in the capital market. The suggestions to check market evils in the form of scams were a) Depository Participants (DPs) should not open or close an account without due
diligence (b) The regulators should spell out the circumstances under which a person is allowed to act on behalf of another person (c) The regulator should pay special attention to unusually large transactions (d) There is a need to strictly adhere to ceiling of 20 de-mat accounts one can have with one or more DPs (e) Banks and demat accounts should not be activated unless knows one customer (KYC) norms and adhered to (f) There is also a need to monitor off-market transactions and money transfers. This would happen if the PAN is made mandatory. (g) It is necessary to each market player, including investors, with a Unique Identification Number (MAPIN) to check many market evils. The number must be mandated in all primary market deals.63

Patil P (2008) studied the reasons for the non revival of the primary market had remained in the pits and was not showing any signs of revival during the months of May and June of 2006, compared with the secondary market, which crossed many new heights. He had drawn the attention by pointing out the fact that all sorts of companies that began tapping the capital market were trying to ride the upbeat sentiments by pricing their shares aggressively during the year 2006. This had raised the presence of the investors being taken for an investment drive by unscrupulous promoters and operators. But the ‘B’ group and mid – caps stocks had not picked up in the secondary market and that had affected sentiments in the primary market.64

Bhavanva Acharya (2009) in her study “What to look out for in IPOs” states that initial public offers in buoyant markets often prices in earnings for the first few years, leaving thin margins of safety and room for disappointment. As per the
Business Line analysis of all IPOs from 2000 to early 2008, showed that one out of every two IPO stocks still trades below its issue price, even after the market recovered strongly, doubling from the lows of last year. Seven out of every ten IPOs also failed to deliver the minimum acceptable return of 15 per cent expected from stock market investments. 264 IPOs from January 2000 to January 2008 were considered. Returns were reckoned based on their compounded annual returns from their issue price to closing prices on October 17, after adjusting prices for stock splits, bonus and other corporate action. The study concluded that the company fundamentals matter much more than the sector profile in IPO performance.65

Mehla S and Prasad H (2009) discussed the SEBI’s regulations framed for the revival of primary market during the period 1992-2004. They attempted to study the impact of reforms on the growth of public and right issues. Some of the significant reforms such as abolishing the need for getting consent from the Controller of Capital Issues (CCI) for fresh issues, introduction of free pricing method for new issues enabled the number of public issues to climb to 1415 in 1995–96 from just 531 in the year 1992-93, where as in the year 1994-95 it reached its peak of development by mobilizing ₹26417 crores from 1678 issues which included 1328 public issues and 350 right issues.66

Haldia P (2010) had reviewed the primary market in 2009-10. Follow on public offering dominated the new issue market than the initial public offerings in this year. Stringent entry norms and better vetting of issues had improved the quality of issues in general. Most issues in 2009-10 were made by companies and promoters of
known stock. Right issues were made at a discount to the ruling price and they were able to draw a shareholder because the secondary market was doing well. Most follow on public offers disappointed the investors because of the aggressive pricing.\textsuperscript{67}

Mathew R (2010) had studied the primary market over three decades from 1980 to 2010. In his opinion, taking advantage of the strength of the secondary market, many high profile companies raised funds in 2006. As a result of tougher regulations, the quality of the issues had gone up substantially. Issues such as United Bank of India, Hathway Cable and Datacom Limited and IL & FS Transportation Ltd were from well established and well known companies. Though some of these issues were overpriced, investors have made significant returns in most of the issues.\textsuperscript{68}

Kumar K.C.J.S attempted to find out the fundamental risk and returns involved in investment of IPOs and the performance of initial public offers between 2005 and 2009. The performance of the IPOs during these five years had been studied with the help of secondary data collected from NSE, BSE and other relevant data sources. The performance of IPOs had been evaluated on the basis of returns on the day of listing and the next day, three months, six months, 12 months, 24 months, 36 months, 48 months and 60 months. It was found from the study that returns out of IPOs during the short period was very promising. Several large equity offerings including those from reputable business houses had failed to reach their price targets. Out of the 285 companies that raised ₹99, 218 crore money from investors in India through IPO, many are quoting below their issue price.\textsuperscript{69}
Anbalagan C and Pujitha B.V.T.S (2012) studied the Investor’s preferences on investment of capital market in India. Explorative approach research type research was used. Hundred samples were chosen to be the sample size to meet the required objective. For the growth process in the economy, reduction plays a vital role. Production of output depends upon material inputs, human inputs, and financial inputs. Material inputs are in the form of raw materials; plant, and machinery etc., Human inputs are like labor and enterprise. Financial inputs are in the kind capital, cash, credit etc., the proper coordination between these inputs; it promotes the growth process in the economy and promotes the well-being and standard of living of in the country. So this paper tries to find the various factors. Finally he concluded that the investors should be aware of the various hedging and speculation strategies, which can be used for reducing their risk. Awareness about the various uses of derivatives can help investors to reduce risk and increase profits. Though the stock market is subjected to high risk, by using derivatives the loss can be minimized to an extent. Indian markets amongst the best regulated markets in the world. Need for greater integration with international markets in terms of capital flows, products and processes need to introduce new age.70

Sanjiv Mitaal, Naresh K Gupta and Sudesh Kumar Sharma (2012) in their study primarily aimed to find whether grading of IPOs uses a basis of investment decisions by the retail investors and to find whether IPO grades affect the issue size. It also states that Indian securities market regulator SEBI achieved a distinction of being the innovator of equity grading in the world. The study analysed 90 IPOs graded by
different credit rating agencies to explore the effect of grading on subscription and issued share capital in the year 2006-07. Pearson’s product of movement test for correlation was applied to assess the correlation between IPO grades and the respective variable. However the findings of this study advocate that IPO grading influenced investor preference and demand.\textsuperscript{71}

Jigna Trivedi and Bindiya soni (2012) in their study tried to comprehend the concept of the book built issue, its importance and advantages over the Fixed Price Regime. It also tried to bring forth the short term return available to the subscribers of IPOs. A sample of 243 companies which came out with 100\% book built IPO and got listed in NSE from the period 2006 to 2010 was taken as a primary data set for the short run analysis. Simple returns, market adjusted returns and excess return were computed to know the performance of the IPOs. The study finally concluded that investors before investing their kitty in the stock, must study the fundamentals, IPO grade and prospectus, rather than blindly relying on the tips given by brokers. SEBI must make it mandatory for companies to disclose their IPO grade in their prospectus, and companies without IPO grades should not be allowed to come out with an IPO. IPOs are a boon if proper homework was done by the investors for selecting a value buy company. IPOs turn out to be a bane when the groundwork of studying the company is not done.\textsuperscript{71}

Manas Mayur and Manoj Kumar (2013) in their study ‘Determinants of Going Public Decisions in an Emerging Market: Evidence from India”, investigates the determinants of going public decisions of the Indian firms, juxtaposing the two
related issues such as what ex-ante characteristics of going-public Indian firms differentiate them from those Indian firms that continue to remain private even though they fulfill the eligibility criteria of going public and what ex-post consequences of IPOs on firm characteristics influence their going public decision. The preceding research issues are examined using two independent analyses namely a panel probit regression analysis and ex-post analysis.

During past two decades, numerous Indian firms have gone public by undertaking IPO of their equity share. Traditionally, most corporate finance text books suggest that firms go public primarily to raise equity capital required for financing their growth. The study consisted of 306 public firms the sample selection process eliminated 215 public firms that went public between 1997 and 2006. The study concluded that the two tests implied that Indian firms go to public for the reason of raise capital for their growth and expansion, diversity the risk of initial owners and capital structure rebalancing, bring down their cost of capital, increase the liquidity of their shares, avoid excessive monitoring of large or block shareholders and seek publicity.72
References:


