

Abstract

This study examines the pricing and post listing price performance of Initial Public Offerings (IPOs) issued in India. Pricing and performance of IPOs, factors affecting IPO performance have been studied extensively in international capital market. However, research works on Indian IPOs have primarily focused on measuring the underpricing on the listing day and factor affecting IPO underpricing.

In this work, we have examined different aspect of Indian IPO issues, i.e. *a)* analyzing different dimensions of Indian IPO market such as amount of capital raised, distribution of IPOs across industry, ratings received by these IPOs, final offer price vs. priced band offered and distribution of IPO across age etc. *b)* Studying the impact of signaling, financial information, issue mechanism, delay in listing and ex-ante risk on offer price and list price as well as long run performance of these IPOs. *c)* Assessing the role of comparable peer group P/E in estimating IPO price, where comparable peer group firms have been selected on parameters like industry, revenue characteristics, book value, and return on net worth. *d)* Evaluating the efficacy of IPO rating on initial return, subscription rate, and after market volatility.

Evaluating the pricing performance for Indian IPOs, we find that IPOs are underpriced as well as exhibit long run underperformance. In contrast to international evidence, we find the underperformance continued till initial twelve months of trading from listing. We find that comparable P/E taken on the basis of industry alone (industry composite) shows poor estimation power. However, significant improvement in the estimation power of the valuation model is observed while narrowing down the list of comparables from the identical industry (of the IPO firm) on the basis of revenue characteristics, book value, and return on net worth. Investigating the influence of IPO grading, we find higher graded IPOs are lesser underpriced, and invite more subscription across all investor category. However, grading fails to reduce post listing price volatility for the IPO stocks. The study indicates that ex-ante risk is positively influencing both offer price and list price. IPOs issued through book build mechanism are better positioned to command higher prices than fixed price issues.

Key words: *IPOs, Signaling, Investment bank prestige, Ex-ante risk, IPO Grading, Volatility, Underpricing, Financial information, Price-earning ratio, Peer group.*