

## **Factors affecting IPO Performance in the Stock Market: An Analytical Perspective**

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### **Abstract**

Initial Public Offerings (IPOs) have long been considered a crucial step in a company's growth trajectory. IPOs offer an opportunity for companies to raise capital and expand their business operations. However, the success of an IPO is not guaranteed, and several factors can impact its performance in the stock market. This study seeks to explore the factors that can affect IPO performance from an analytical perspective. The economic conditions prevailing at the time of an IPO can have a significant impact on its performance. Factors such as inflation, interest rates, and GDP growth can influence investor sentiment and, in turn, impact IPO performance. Similarly, industry-specific factors such as competition, technological changes, and regulatory changes can also impact IPO performance. Company-specific factors such as financial performance, management quality, and growth potential can also play a critical role in determining IPO success. Furthermore, the regulatory environment surrounding IPOs, including legal and compliance requirements, can affect investor sentiment and the success of an IPO. Through an analytical approach, this study aims to identify and analyse the critical factors that can impact IPO performance in the stock market. The research can provide valuable insights into the underlying mechanisms driving IPO performance and can be useful for investors, issuers, and policymakers in making informed decisions regarding IPO investments and regulations.

*Keywords – Initial Public Offerings (IPOs), Stock Market, Analytical Perspective, Economic Conditions, Industry Trends, Company-Specific Factors, Regulatory Environment, Investor Sentiment*

## **Introduction**

Initial Public Offerings (IPOs) are an essential part of the capital market ecosystem. IPOs allow companies to raise capital by offering shares to the public for the first time. IPOs have the potential to provide significant returns to investors while providing companies with the capital needed to fund their growth and expansion plans. However, not all IPOs are successful, and several factors can impact the performance of an IPO in the stock market.

The performance of an IPO on the secondary market, where shares are exchanged after the initial public offering, often determines whether it is successful or unsuccessful. The performance of an IPO in the secondary market can be influenced by a number of variables. These variables may be roughly categorised into the regulatory environment, company-specific variables, industry trends, and economic situations. The performance of an initial public offering (IPO) can be significantly impacted by economic factors including interest rates, inflation, and GDP growth. Investors may choose fixed income assets over equity investments at a time of high interest rates, which would reduce the market for IPOs. Similar to this, poor investor sentiment during a recession may result in a decline in interest in initial public offerings.

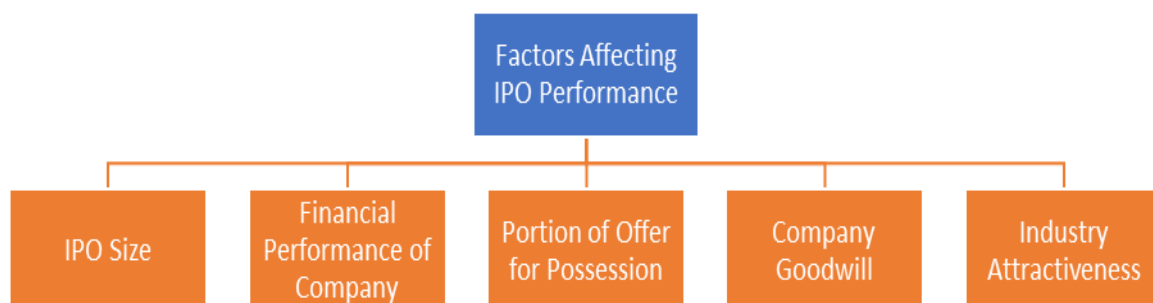
Industry-specific factors, such as competition, technological changes, and regulatory changes, can also impact IPO performance. Companies operating in industries with high competition and low barriers to entry may find it challenging to generate investor interest. Similarly, companies operating in industries undergoing rapid technological changes may struggle to keep up with the pace of innovation and may fail to generate investor interest. Regulatory changes can also impact IPO performance, with investors becoming more cautious in the face of increased regulatory scrutiny. Company-specific factors, such as financial performance, management quality, and growth potential, can also play a critical role in determining IPO success. Companies with strong financial performance, a proven management team, and a clear growth strategy may attract investor interest and perform well in the secondary market.

Finally, the regulatory environment surrounding IPOs, including legal and compliance requirements, can affect investor sentiment and the success of an IPO. Investors may be wary of investing in companies with a history of legal or regulatory issues, leading to lower demand for IPOs. Given the critical role that IPOs play in the capital market ecosystem,

understanding the factors that can impact IPO performance is crucial. This study aims to analyze the various factors that can influence IPO performance from an analytical perspective. By understanding these factors, investors, issuers, and policymakers can make informed decisions regarding IPO investments and regulations.

## **Literature Review**

Several studies have attempted to identify the factors that can impact the performance of Initial Public Offerings (IPOs) in the stock market. IPOs play an essential role in the capital market, allowing companies to raise capital by offering shares to the public for the first time. However, not all IPOs are successful, and several factors can impact the performance of an IPO in the stock market. A study's empirical linear regression model verified that IPO problems had a detrimental influence on stock market returns. When the external components in the model and the controlling factor inside the model are in equilibrium, the changes in the stock market rate of return caused by IPO funding are quite significant. The stock market returns from IPO capital might vary greatly (Li and Shi, 2016). Another study examined the current state of IPOs in Bangladesh and identified characteristics that affect IPO subscription timelines. This study's findings will aid regulators in strengthening Bangladesh's stock market by guiding their course of action. According to the research (Rahman, Hossain, and Omar, 2017), market lot has a large positive effect on IPO subscription times, however EPS and offer price have a considerable negative influence. Figure 1 shows the various factor that determine the performance of IPO.



**Figure 1 Factors Affecting IPO Performance**

According to research that examines the long-term IPO stock performance of a big Chinese sample and the relationship between initial reserves and long-term IPO stock performance, Chinese IPO enterprises often issue a significant number of bonus shares following the IPO. Following bonus issuance, Chinese IPO businesses show improved operating/stock performance, which is consistent with the bonus share signalling concept. Interestingly, the success of IPO stocks over the long term is favourably correlated with the amount of the initial reserves (Cheng, 2015). In an investigation to ascertain what factors affect initial share pricing on the stock exchange and whether initial offering exchange pricing on the Tehran stock exchange is less than actual, it was found that only the P/E variable has a significant relationship with price changes on initial offerings and has the greatest impact on the price of initial offerings (Bateni & Asghari, 2014).

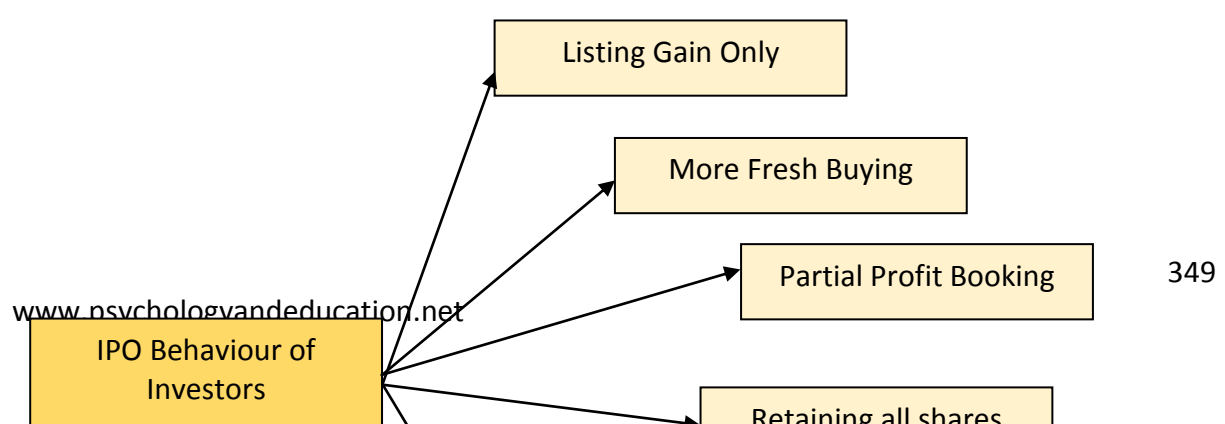
In a study, the performance of India's IPO was looked at. Independent variables including the IPO offer price, market return stated in terms of Sensex return for the same time period, and IPO oversubscription have all been analysed to assess their impact on IPO success. The study found that oversubscription has a considerable influence on an IPO's short-term success, while the timing of the listing and the offering's pricing both have a major impact (Singh Bhullar & Bhatnagar, 2014). Another study examined the effect of stock markets on IPOs and found a strong correlation between the quantity of IPOs and historical stock market results. The study discovered that managers examine long-term financial market yields before deciding on an IPO date; IPO operations are encouraged by a bullish stock market over a six-month/one-year timeframe. On the other hand, a poor performance that lasts for two years may have the same impact (Batnini, Hammami, 2015).

A study finds that IPOs issued during the crisis period are significantly more under-priced than those issued during the non-crisis period. The authors suggest that the under-pricing may be a result of increased information asymmetry and uncertainty during the crisis, leading to a higher risk perception among investors. The study highlights the importance of considering the market conditions while pricing IPOs to prevent under-pricing and reduce the cost of capital for companies (Bansal & Khanna, 2012). In recent years, the IPO volume in Malaysia has been relatively low, with only a handful of companies going public each year. However, there have been some notable exceptions, such as the IPO of tech company, Mr. DIY, which was the largest ever in the country. The initial return for Malaysian IPOs has been mixed,

with some companies experiencing significant price increases on their first day of trading, while others have seen their stock prices decline. Overall, the average initial return for Malaysian IPOs has been relatively modest compared to other countries (Mohd Rashi et. al, 2013).

Research looked at how changes in a few macroeconomic variables affected the movement of the CNX NIFTY stock market index from January 2004 to December 2013. The study found that important factors such as the influx of foreign institutional investors, political stability, growth in the gross domestic product, inflation, liquidity, and different interest rates are responsible for movement in the Indian stock market (Ramanujam Veluchamy, 2014). Another study that examines the success of recently listed companies and does an empirical analysis on a sample of 84 IPOs approved by the Italian Stock Exchange looks at the impact of ESG Corporate Responsibility on under-pricing. With a focus on the impacts of environmental, social, and governmental responsibilities, this article seeks to investigate the significance of corporate social responsibility (CSR) on the performance of newly listed companies at the Italian Stock Exchange while analysing the performance of the first day of listing (Bollazzi et al., 2014).

The influences on IPOs' first-day results were examined in a study. According to the study, there are several factors that might affect the first return, including the company's size, age, profitability, underwriter reputation, and market circumstances. Particularly, prosperous organisations tend to have lower early returns than smaller, younger, and more youthful businesses. Companies that go public during times of market volatility as well as those that are underwritten by respected investment banks sometimes have lower first profits (Fahlen, 2017). The final analysis identified the short- and long-term elements impacting IPOs and FPOs. According to Kaur (2017), these were the age of the company, overpriced, underpriced, offer size, and leverage ratio. Figure 2 concluded the strategies how IPO performance is affected by the behaviour of investors:



## Figure 2 IPO Behaviour of Investors

### **Conclusion**

In conclusion, research indicates that India has recently given a lot of attention to the idea of corporate social responsibility (CSR). While some studies have emphasised the benefits of CSR initiatives for a company's reputation as well as for the welfare of communities, other studies have emphasised the difficulties in putting effective CSR practises into practise in India, including a lack of knowledge of what constitutes effective CSR, institutional and cultural barriers, and a lack of regulatory support. However, despite these challenges, there is significant potential for companies to contribute to social upliftment in India through CSR initiatives. By adopting a strategic and sustainable approach to CSR, companies can ensure that their initiatives have a meaningful impact on society and contribute to the sustainable development of India. It is essential for Indian companies to understand that CSR is not just about philanthropy but a comprehensive approach to creating sustainable and equitable development. Future research could examine the role of the government in promoting CSR, the impact of different types of CSR initiatives on communities, and the importance of stakeholder engagement in the implementation of CSR practices.

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