INVESTOR'S MINDSET TOWARDS IPO AS AN INVESTMENT TOOL USING NON PARAMETRIC TESTS

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ABSTRACT

In India IPOs are most predominantly & popularly used method to raise fund from general public. But many studies have failed to know their reasons of popularity.. Hence, this study aims to understand the reasons for the popularity of IPO as an investment tool & explore various avenues of information about IPO. Authors used Mann Whitney U test & Kruskal Wallis methods to test hypothesis by using SPSS. It is found that majority of the dependent variables are different across the genders and shown an attitudinal difference across qualification and income categories.

Keywords: IPO, Investors, Avenues, Influence, Relationship.

I.   INTRODUCTION

Every company requires long term funds to survive in the competitive environment. Initial Public offering (IPO) is a way of offering shares to the interested investors and ensuring that the company has ample long term capital to survive the ordeals of the ever-changing business environment. Since the long term capital is raised from the public, the government has come up with various stringent rules to safeguard the public interest. Every IPO has to have a minimum subscription of 90% of the amount offered to the public. It shows that the public has faith that the company has good future prospects and survives for a long period of time. Therefore, the company has to ensure that the investors are ready to invest in the company. So, the variables which effect IPO investment has to be gauged and suitable measures has to be taken by the company to induce the investors to invest in the company.

II.   LITERATURE REVIEW

(Bubere, Shihab, & Lions, 2012) Study is conducted to examine profitable opportunities of retail investors in Nordic markets. It selected 68 IPOs for 7 years from 2005 to 2011 from Nordic markets; used cross sectional

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quantitative analysis. Further, authors tested IPO underpricing in 3 different time lags i.e., on the day of listing, 5 and 20 days after listing. Study resulted that there is underpricing of IPOs in Nordic markets and prices are consistent for at least up to one month from listing. Finally, authors concluded it by stating that retail investors can make profits if they sell as soon as possible & invest in other similar markets.

(Brau & Fawcett, 2006) Empirical and theoretical work is carried out to analyze management decision making perspective in IPO process. Authors surveyed 336 Chief Financial Officers to compare their perspective to existing academic theories. They specifically aimed to concentrate on underpricing, motivation to go for public, signaling, selection of underwriter, decision to stay private, process of IPO issue and timing. Study resulted that underpricing pay off investor's risk taking capacity, motivation is to facilitate acquisition, timing is based on market condition, signaling is based on historical revenues followed by underwriter certificate and finally to preserve ownership & controlling decision making authority they feel to stay private.

(Che-yahya & Abdul-rahim, 2014) Authors collected 292 Malaysian IPO stocks from 2000 January to 2009 July as a sample for the study. Manuscript aimed to understand voluntary element of lockup facility's effect on investors' trading activities in the instant market by flipping action. It is found that voluntary lockups narrate meaningfully and adversely to flipping action of Malaysian IPOs.

(Smith, 2017) Objective of this article is to identify price performance of IPOs by using abnormal performance detection method. Study explored seven portfolios matched by its book to market ratio, size and industry. It is found that abnormal performance detection by all matched firms were indicated, perfect & influential.

(Hawaldar, Kumar, & Mallikarjunappa, 2018) Research work is undertaken to determine IPO performance of book built & fixed price issues on the day of listing and post listing in Indian stock market. Study covered 464 IPOs which are issued between the years of 2001 to 2015. It is found that book built IPOs are less underpriced when compared to fixed price IPOs in Indian stock market.

III.   OBJECTIVE OF THE STUDY

- To identify the factors which influence the investor while they decide to buy IPO
- To understand the mindset of the investor towards IPO investment

IV.   RESEARCH METHODOLOGY

For the purpose of this research, questionnaire was collected from 84respondents through Google forms. Descriptive research design is used for this study to analyse the attributes of the population. The respondents are selected through the convenience sampling method. Predominantly, the data is collected for the first time through questionnaires from 84 respondents, so the data collected can be referred as the primary source of data. Secondary data sources are also used to collect data i.e. books, magazines, journals etc. which facilitated understanding regarding

the process of IPO as well as the reasons for a successful IPO. From the questionnaire the data was organized and tabulated to facilitate analyzing data using SPSS. The Mann u Whitney test and the Kruskal Wallis test was used to analyze the cross tabulated data to understand the relationship between various variables.

V.   DATA ANALYSIS AND INTERPRETATION

Hypothesis 1 : H_0 = There is no significant difference in the attitude of the respondents for the dependent variable (Interested in IPO trading, Confusing lots, Listing gains, Riskiness of IPO, Influenced by the advertisement and IPO bought in a year) across the different gender (Independent variable)

H_1 = There is a significant difference in the attitude of the respondents for the dependent variable (Interested in IPO trading, Confusing lots, Listing gains, Riskiness of IPO, Influenced by the advertisement and IPO bought in a year) across the different gender (Independent variable)

Table 1: Gender wise Results

	Gender	N	Mean Rank	Sum of Ranks
Interested In IPO Trading	Male	49	36.17	1772.50
	Female	35	51.36	1797.50
	Total	84		
Confusing Lots	Male	49	42.14	2065.00
	Female	35	43.00	1505.00
	Total	84		
Listing Gains	Male	49	40.43	1981.00
	Female	35	45.40	1589.00
	Total	84		
Risky	Male	49	42.76	2095.00
	Female	35	42.14	1475.00

	Total	84		
Influenced By Advertisement	Male	49	38.38	1880.50
	Female	35	48.27	1689.50
	Total	84		
IPO Bought In Year	Male	49	37.86	1855.00
	Female	35	49.00	1715.00
	Total	84		

Mann-Whitney U Test Statistics

	Interested In IPO Trading	Confusing Lots	Listing Gains	Risky	Influenced By Advertisement	IPO Bought In Year
Mann-Whitney U	547.500	840.000	756.000	845.000	655.500	630.000
Wilcoxon W	1772.500	2065.000	1981.000	1475.000	1880.500	1855.000
Z	-2.996	-.167	-.979	-.118	-1.943	-2.162
Asymp. Sig. (2-tailed)	.003	.867	.328	.906	.052	.031

Interpretation: From the above information, it can be inferred that the 2 tailed significance score for interested in IPO trading and IPO bought in a year are 0.003 and 0.031respectively which is less than 0.05 (the standard alpha level), therefore H_0 is rejected.

The 2 tailed significance score for confusing lots, Listing gains , Risky and Influenced by advertisement are 0.867,0.328,0.906,and 0.052> 0.05(the standard alpha level), therefore in these cases H_0 is accepted.

Hypothesis 2: H_0 = There is no significant difference in the attitude of the respondents for the dependent variable (Convenience, Greater chances of growth) across their different annual income categories (Independent variable)

H₁= There is a significant difference in the attitude of the respondents for the dependent variable (Convenience, Greater chances of growth) across their different annual income categories (Independent variable)

Table 2: Income wise results

	Annual _Income	N	Mean Rank
	< 2L	53	39.59
	2-5L	8	34.00
Convenient	5-10L	10	68.70
	> 10L	13	39.42
	Total	84	
	< 2L	53	36.84
	2-5L	8	42.31
Greater Chance Of Growth	5-10L	10	60.20
	> 10L	13	52.08
	Total	84	

Kruskal Wallis Test Statisticsa,b

	Convenient	Greater Chance Of Growth
Chi-Square	15.758	11.274
df	3	3
Asymp. Sig.	.001	.010

Interpretation: The significance level in both the categories (Convenient and greater chances of growth) are 0.001 and 0.010<0.05(the standard alpha level), therefore H_0 is rejected.

Hypothesis 3: H_0 = There is no significant difference in the attitude of the respondents for the dependent variable (Prospectus referred and Professional valuation) across their different educational qualification categories (Independent variable)

H_1= There is a significant difference in the attitude of the respondents for the dependent variable (Prospectus referred and Professional valuation) across their different educational qualification categories (Independent variable)

Table 3: Qualification wise results

	Qualification	N	Mean Rank
Prospectus Referred	UG	8	69.19
	Graduate	10	36.50
	PG	59	36.37
	Others	7	72.21
	Total	84	
Professional Valuation	UG	8	68.19
	Graduate	10	43.20
	PG	59	35.32
	Others	7	72.64
	Total	84	

Kruskal Wallis Test Statistics[a,b]

	Prospectus Referred	Professional Valuation
Chi-Square	27.122	28.011
df	3	3

Asymp. Sig.	.000	.000

Interpretation: The significance level in both the categories (Convenient and greater chances of growth) are 0.000 and 0.000<0.05(the standard alpha level), therefore H_0 is rejected.

FINDINGS:

- The males (58%) are more in number as compared to females (42%).

- Most of the respondent are less than 25 years(63%) followed by 25- 50(23%), above 75(12%) and 50-75(2%)

- The post graduates (70%) are more in number as compared to the other educational qualification.

- Annual income of less than 2, 00,000(63%) are more in number as compared to other categories.

- The genders wise results can be used to conclude that majority of the dependent variables are different across the genders.

- Most of the dependent variables show an attitudinal difference across qualification and income categories.

SUGGESTIONS

- Special programs should be provided to the students to educate them about the process of IPO, its riskiness, attractive listing gains.

- Before the launch of IPO, advertisement has to be done through various communication channels to attract investors from all walks of life.

- Prospectus should provide clear information in simple terms regarding the growth prospects of the company so that people can understand the terms and conditions of the offer made by the company.

- Valuation should be done by professionals in order to avoid overpricing of the IPO.

- Online trading of IPO should be encouraged so as to garner more investors.

- Investors should also refer financial statements and other key parameters of issuing company.

VI.   CONCLUSION

Initial Public offering (IPO) carries an inherent risk for the company to not meet 90% of the amount issued on the closure date. The company has to educate the investors regarding the advantages of IPO, process of IPO and assure them that the investment will likely to grow in future. Special programs should be geared to understand as well as educate the people about the advantages and process of IPO. IPO raises capital for the companies and fosters the

entrepreneurship culture in the country. So, further efforts could be made to ensure that the efforts reach to the interested investors and give more impetus to the new generation startups.

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