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UNDERPRICING AND SUBSCRIPTION OF IPO IN INDIA: A STUDY CONCERNING COMPANIES ACT 2013

- Ayon Roy[1]

Abstract:

The Indian market for initial public offerings, or IPOs, has been active, with significant investor interest and regulatory scrutiny. In the context of India, this essay explores the complex dynamics of IPO underpricing and subscription, focusing on their ramifications within the regulatory framework established by the Companies Act 2013. This article intends to shed light on the variables driving underpricing and subscription rates, the regulatory processes controlling initial public offerings (IPOs), and their effects on market efficiency and investor protection by thoroughly reviewing empirical data, legislative requirements, and market trends. Stakeholders can obtain insights to successfully navigate the Indian IPO market by deciphering these difficulties.

Introduction:

Companies in India have found that the Initial Public Offering (IPO) market is a vital funding source for business expansion. Going public comes with its challenges, particularly regarding underpricing and subscription costs. This essay examines the underpricing and subscription dynamics of initial public offerings (IPOs) in India, emphasising the legal environment established under the Companies Act of 2013.

I. Understanding IPO Underpricing:

[1] Student at Xavier Institute of Management, Jatni, Bhubaneswar

The "IPO underpricing" phenomenon occurs when the price at which shares are offered in an initial public offering (IPO) is less than the price at which those shares begin trading in the secondary market. This frequently means instant profits for investors allotted shares during the IPO process. Several variables, such as investor demand, issuer reputation, and market mood, cause underpricing. Underpricing has been a prevalent IPO characteristic in India, with noteworthy consequences for investor behaviourand market dynamics.

Reasons for Underpricing:

Information Asymmetry: Underwriters may use conservative pricing since investors may not fully know the company's prospects and worth.

Issuer's incentives: By attracting interest and acting as a signal of quality, underpricing may ensure successful initial public offerings (IPOs) and build enduring connections with investors.

Market Conditions: Expectations of short-term returns, investor demand for fresh offers, and general market attitude can all impact underpricing.

Impact on Investors:

Immediate Returns: Because of underpricing, investors who purchase IPO shares at the offer price and sell them on the first trading day might realise quick financial gains.

Long-term Performance: Investor confidence and long-term stock performance can be impacted by underpricing, which can also impact post-IPO trading and market liquidity.

Risk considerations: Although underpricing could benefit in the near term, it also indicates increased risk or uncertainty around the issuing firm and the IPO.

Determinants of Underpricing:

Issuer Features: Underpricing may be influenced by industry, firm size, growth potential, and profitability.

Market Conditions: Underpricing levels can be impacted by macroeconomic variables, investor mood, and the general health of the stock market.

Reputation of Underwriter: The underwriter's reputation and performance history may influence investor impressions of the IPO and pricing choices.

Regulatory Considerations:

Regulatory frameworks—such as the Companies Act 2013 in India—may specify transparency obligations, pricing policies, and investor protection measures to reduce underpricing and guarantee fair market practices.

Regulators such as the Securities and Exchange Board of India (SEBI) are vital in regulating initial public offerings (IPOs), keeping an eye on compliance, and defending investors' rights.

Empirical Evidence and Research:

To comprehend underpricing patterns, pinpoint causes, and assess the effects of underpricing on many stakeholders, academic studies and empirical research examine historical IPO data.

Policymakers, practitioners, and investors may learn about IPO dynamics and market efficiency from research findings, which also add to theoretical frameworks, regulatory discussions, and market practices.

II. Exploring Subscription Patterns:

The need from investors for shares sold by companies going public is reflected in IPO subscription trends. When demand for shares outpaces availability, it is known as oversubscription, and shares are frequently distributed via lottery. Conversely, undersubscription suggests low investor enthusiasm for the first public offering. Comprehending subscription patterns offers valuable perspectives on investor attitude, market circumstances, and the allure of initial public offerings.

Subscription Mechanism:

Generally, investors know IPOs through subscription, placing bids for shares at predefined prices within a range.

During a set subscription period, investors can specify how many shares they want to buy and how much they are ready to pay through the subscription procedure.

Subscription Levels:

Subscription levels show how much money there is for shares compared to the total number of shares the firm offers.

The number of times the initial public offering (IPO) is oversubscribed (demand exceeds supply) or undersubscribed (supply exceeds demand) is represented by the subscription ratio, which is used to indicate subscription levels.

Low subscription percentages suggest weak investor dem or worries about the offering, whereas high subscription ratios show significant investor interest and desire for the IPO.

Determinants of Subscription Rates:

Subscription rates are influenced by several factors, such as:

Company Fundamentals: How investors view the company's potential for development, financial stability, standing in the market, and calibre of management.

Market circumstances include investor risk tolerance, the state of the economy, and the general outlook for the stock market.

Pricing Strategy: The company's offer pricing and its appeal concerning peer and market comparisons and market values.

Marketing and Promotion: Media coverage, roadshows, and marketing initiatives can attract investors and create dem.

Implications of Subscription Dynamics:

Oversubscription can occur when demand surpasses the number of shares the firm is willing to provide due to high subscription levels. When planned allotments are not secured, this might lead to allocation issues and possible disappointments for investors.

Pricing pressures from oversubscription may also affect the IPO's aftermarket performance and ultimate offer price.

On the other hand, undersubscription can cause investors to lose faith in the company's future, the market, and investor confidence. As a result, the IPO can be cancelled or its price changed.

Regulatory Considerations

In India, IPO subscription procedures are supervised by regulatory organisations like the Securities and Exchange Board of India (SEBI), which guarantees equitable and open procedures.

Regulations may specify the length of the subscription period, the disclosure obligations, and investor protection measures to protect investor interests and preserve market integrity.

III. Regulatory Framework under the Companies Act, 2013:

A significant regulatory framework controlling business entities in India, including the process of initial public offerings (IPOs), is represented by the Companies Act of 2013. The Act aims to improve accountability and openness in the financial markets by establishing rules about investor protection, corporate governance, and disclosures. Mandatory disclosures, minimum subscription requirements, and regulatory scrutiny by the Securities and Exchange Board of India (SEBI) are critical elements of the Companies Act 2013 pertinent to initial public offerings.

Disclosure Requirements:

Comprehensive disclosure requirements for Companies seeking initial public offerings (IPOs) are mandated under the Companies Act of 2013.

Businesses must create and submit a prospectus that includes comprehensive details about the firm, its activities, financial results, management, risks, and intended use of funds to the Securities and Exchange Board of India (SEBI) and the Registrar of Companies (ROC).

To evaluate the benefits and risks of the IPO and make well-informed investment decisions, investors need access to the prospectus.

Corporate Governance Standards:

Companies must abide by strict corporate governance guidelines established by the Companies Act of 2013 before and after becoming public.

Corporate governance regulations, which cover the makeup of the board of directors, audit committees, disclosure obligations, and transparency standards, must be followed by companies preparing to go public.

Corporate governance regulations promote investor protection and market integrity by improving listed businesses' transparency, accountability, and investor trust.

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Listing Requirements:

Listing rules for Companies looking to list their shares on stock exchanges are outlined in the Companies Act of 2013.

Companies that want to list on reputable stock markets like the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) must fulfil minimum capitalisation, profitability, and liquidity standards.

Investor interests and market integrity are protected when listed firms maintain sufficient financial health, liquidity, and market credibility, all of which are ensured by compliance with listing standards.

Regulatory Oversight:

The Companies Act 2013 gives regulatory agencies like SEBI the authority to supervise the initial public offering (IPO) process, monitor compliance with rules, and impose investor protection measures.

In policing the initial public offering (IPO) market, examining prospectuses, examining pricing strategies, and guaranteeing just and open procedures, SEBI is essential.

The goals of regulatory supervision in the initial public offering (IPO) market are to protect investor interests, uphold market integrity, and stop fraudulent activity.

Amendments and Updates:

Periodic changes and revisions to the Companies Act 2013 are possible to improve regulatory effectiveness, solve new challenges, and align with worldwide best practices.

To adjust to changing market dynamics and regulatory obstacles, amendments may change disclosure requirements, corporate governance standards, listing requirements, and regulatory processes.

The legal and institutional framework for overseeing initial public offerings (IPOs) in India is provided under the Companies Act 2013 regulatory framework. The regulatory framework supports the integrity and effectiveness of the initial public offering (IPO) market by guaranteeing openness, accountability, and investor protection. This fosters capital formation, market expansion, and investor trust in India's capital markets.

IV. Implications of Regulatory Compliance:

Companies looking to go public are subject to several compliance requirements under the Companies Act 2013's regulatory framework. Maintaining investor trust and market integrity depends on compliance with these requirements. Penalties from the authorities, investor mistrust, and adverse market reactions can all arise from non-compliance. As a result, businesses must follow legal guidelines and guarantee openness through the first public offering.

Enhanced Investor Confidence:

Regulatory compliance fosters investor trust by ensuring that businesses going through initial public offerings (IPOs) follow strict disclosure requirements, corporate governance guidelines, and regulatory scrutiny.

To make well-informed investment decisions, manage risks, and analyse the firm's financial health and future prospects, investors depend on the truth and openness of the information presented in the prospectus.

Adherence to regulatory mandates cultivates investor confidence and legitimacy within the initial public offering (IPO) landscape, drawing on a broader pool of participants and advancing market efficiency and liquidity.

Market Integrity and Transparency:

Regulatory compliance fosters market integrity and transparency by preventing unethical business conduct, market manipulation, and insider trading throughout the initial public offering (IPO) process.

Authorities that oversee regulations, like the Securities and Exchange Board of India (SEBI), ensure procedures are transparent, examine prospectus disclosures, examine pricing strategies, and monitor listing requirements compliance.

Investor safety, market stability, and trust in the integrity of India's capital markets are all facilitated by transparent and well-regulated initial public offerings (IPO) marketplaces.

Legal and Reputational Risks:

Companies, directors, underwriters, and other stakeholders risk legal trouble, reputational damage, fines, penalties, and negative press when they don't follow the rules.

To minimise legal and reputational risks, preserve market credibility, and keep investor trust, businesses must thoroughly follow all disclosure standards, corporate governance guidelines, and listing criteria.

Regulatory Enforcement and Remediation:

Regulatory enforcement tools, such as investigations, actions, and inspections, guarantee market players' responsibility and discourage non-compliance.

To maintain market integrity and investor protection, regulators have the power to impose fines, sanctions, and remedial actions on businesses and persons who are found to have violated regulatory laws.

Businesses must address shortcomings, resolve non-compliance problems, and put corrective measures in place to abide by regulatory standards, win back investors' trust, and regain market credibility.

Market Development and Access to Capital:

Regulatory compliance promotes market development and capital availability by enhancing investor trust, transparency, and market integrity.

Transparent and well-run initial public offerings (IPO) markets draw local and foreign investors, facilitate capital creation, boost economic expansion, and encourage innovation and entrepreneurship in India's business sector.

Adherence to regulatory mandates fortifies the initial public offering (IPO) environment, amplifies market efficacy, and bolsters India's capital markets' enduring growth and durability.

Beyond legal and procedural requirements, the consequences of regulatory compliance in the initial public offering (IPO) market under the Companies Act 2013 cover broader aspects of investor protection, market integrity, and sustainable market development. The integrity, effectiveness, and resilience of India's IPO ecosystem are greatly influenced by regulatory compliance, essential in maintaining regulatory standards, encouraging transparency, and boosting investor trust.

V. Empirical Analysis:

An empirical examination of India's IPO underpricing and subscription trends offers critical new perspectives on the market's workings and the regulations' efficacy. Researchers can find patterns, trends, and anomalies in IPO pricing and subscription behaviour by examining historical data and market movements. Regression analysis and statistical modelling approaches may also be used to evaluate how market circumstances and regulatory changes affect the performance of initial public offerings (IPOs).

Data Gathering and Sources:

The foundation of an empirical study is gathering essential IPO data, such as offer prices, first trading prices, subscription ratios, business details, market circumstances, legal filings, and other relevant data.

Financial statements, prospectuses, regulatory filings, stock exchange data, IPO databases, and other publicly accessible sources are a few examples of data sources.

Measures and Variables:

Empirical research usually establishes and operationalises variables and measurements to study IPO dynamics. Essential factors might be:

Dependent variables include subscription ratios, aftermarket performance, and IPO underpricing.

The following are independent variables: market circumstances, company size, profitability, growth potential, and regulatory compliance.

The right metrics define and quantify variables, such as percentages, ratios, market indices, financial ratios, and other quantitative indicators.

Methods of Analysis:

Several statistical and economic methods are used in empirical analysis to investigate correlations, test hypotheses, and derive conclusions from empirical data.

Regression analysis, event studies, time-series analysis, panel data analysis, and descriptive statistics are common analytical approaches.

Regression analysis is a popular tool for estimating parameters, modelling the connection between dependent and independent variables, and determining the factors impacting market performance, subscription patterns, and IPO underpricing.

Testing Hypotheses:

Empirical investigations develop hypotheses based on theoretical frameworks, empirical findings, and previous research material.

Inferential statistics and statistical tests are used to evaluate hypotheses and determine the validity and significance of the correlations between the variables.

Researchers can determine causal linkages, assess the empirical validity of theoretical claims, and derive significant conclusions from empirical data using hypothesis testing.

Interpretation of the Results:

Based on methods for data analysis and statistical inference, empirical analysis produces conclusions and outcomes.

The interpretation of the results takes into account the implications for investor behaviour, regulatory policies, and IPO markets while also taking into account theoretical frameworks, the study aims, and empirical data.

Analysing the results entails determining how reliable the data are, overcoming biases and limits, and deriving conclusions about the dynamics of initial public offerings, market efficiency, and regulatory efficacy.

Contextualisation:

A discussion of the results and their implications for theory, practice, and policy marks the end of an empirical investigation.

Scholars analyse and evaluate empirical findings, offering insights into investor sentiment, market efficiency, investor behaviour, and regulatory compliance. They also examine the consequences of these findings for understanding IPO dynamics.

The corpus of information already in existence is augmented, regulatory reforms are informed, and market players, legislators, and regulators make decisions based on empirical results.

Empirical study is essential to improving our knowledge of market efficiency, regulatory compliance, and IPO dynamics. Researchers can find patterns, correlations, and insights that guide the IPO market's theory, practice, and policy by using empirical data and analytical tools.

VI. Conclusion:

In conclusion, the dynamics of IPO underpricing and subscription in India are multifaceted and influenced by market forces, regulatory requirements, and investor behaviour. The Companies Act of 2013 is crucial in shaping the IPO landscape, ensuring transparency, fairness, and investor protection. By understanding these dynamics and regulatory provisions, stakeholders can navigate the IPO market effectively, fostering capital formation and sustainable economic growth.