



A STUDY ON FACTORS INFLUENCING INDIVIDUAL INVESTORS' TOWARDS IPOS PERFORMANCE

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Abstract

All the market & firm specific variables are regressed against the underpricing. Multiple regressions are used to find which variables statistically consequential in affecting underpricing. It is because the market behavior is not known especially in volatile share market. Performance of the IPO varies in accordance with the market i.e. bullish to bearish. There were many researches already done related to the performance of mutual fund and customer perception but virtually speaking none of these studies were concentrated on investors' perception towards the equity and tax saving mutual funds across the investors in Chennai. The researcher used the Descriptive type of research design in her study. The researcher used the Primary data collection method in her study by framing a structured Questionnaire. The researcher went with convenient type of sampling method in her study. The sample is taken as 120 by the researcher. For the purpose of Analysis and Interpretation the researcher used the following statistical tools namely Simple Percentage Analysis, Chi-Square Test & Rank Correlation. Based on the Analysis and Interpretation the researcher arrived out with the major findings in her study and Suggestions are given in such a way so that the investors can attain the wealth maximization

Keywords: *Banks, Financial Sector, Investors, Mutual fund, Perception.*

Introduction

An initial public offering (IPO), referred to simply as an "offering" or "flotation", is when a company (called the issuer) issues common stock or shares to the public for the first time. This study aims to find if there is any correlation between the QIB subscription and the returns from these IPOs. Since, QIB carries out only fundamental analysis, the listing gains have not been considered, since listing gains depend on other factors as well, like size of the issue, market sentiment etc. This study explores the actual performance of IPOs in the long run. It explains the various aspects of an IPO. It tries to evaluate the factors that affect the performance of an IPO. The study aims to help the retail investors to make sound investment decisions without utilizing much of their time. Though IPOs generate huge excitement in the market and many investors put their money in it, very few IPOs give positive returns. Most of the investors don't know how an IPO works. There are very few tools to evaluate an IPO. It is mandatory for all IPOs to be graded by a recognized Credit Rating Agency. They are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded. An IPO can be a risky investment. For the individual investor it is tough to predict what the stock or shares will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Equity investment is a risky investment for which various factors have to be considered by the investors before investing in it. Investors can gain in equity investment when they consider some important factors before investing. A mutual fund basically pools the money of investors, who share some common financial objective. This money is invested in capital market instruments like shares, debentures and other securities and also in other investible avenues such as real estate, commodities etc. Income thus earned and the capital appreciation realized, are shared by its unit holders (investors) in proportion to the number of units owned by them. The researcher is interested in finding out the major factors influencing the investor's perception and its significant impact on the investment instruments. The researcher has identified the following as major factors namely, a) Liquidity b) Rate of Returns c) Dividends e) Growth in NAV f) Consistency. The major objectives of the study are to identify the various factors considered by the individual investors for equity investment. The Sub objective of this study is to identify the various factors considered by the individual investors for equity investment on the demographical factors of the investors.

Review of Literature

Meggison W. N., 1994 Suggested that privatized firm perform better than their counterparts. On the other hands, (**Kay, 1986**) provided evidence which is supportive of government enterprise. Several papers discussed the vital role played by underpricing in achieving the desired ownership structure. Among these papers (**LaPorta, 1999**), has pointed out that for emerging market countries, ownership structure plays a very important role in corporate finance. (**Kim, 2004**), study the relationship between managerial ownership and firm performance using Thai IPO firms. Signaling (**Allen, 1989**), asymmetric information (**Ibbotson, 1975**), **Sahu.R.K. (2001)** concludes that the measures of accounting profitability are based on book profits and book value of investment.

Qiming Wang (2010) the price clustering of Initial Public Offerings (IPOs) in the secondary market trading during the first 240 trading days after their IPO dates. The results indicate the huge difference between the integer price frequency of IPOs in the primary market and that of matched stocks in the secondary market almost disappears on the first trading day after IPO.

In 1999, investment banks were allowed to use a version of book building as a mechanism for bringing IPOs to the Indian capital market. Book building refers to the process of generating, capturing, and recording investor demand for shares during an IPO in order to support efficient price discovery. The empirical evidence on the performance of private and government firms is also inconclusive.

Mark Grinbatt and Matti Keloharju (2001) states that past returns, references price effects, the size of the holding period, capital gain or loss, tax loss selling and the smoothing of consumption over life cycle are the determinants of trading in equity investment.

Objective

1. To find the investors perception towards the equity and tax saving mutual funds
2. To analyse the performance of the IPO's in the market during the financial year 2014
3. To ascertain the factors contributing to the under pricing or over pricing of IPO in India
4. To study the performance of the Equity/Tax saving mutual funds from the investor's point of view.
5. To study and to find out the consistency of performance confined to selective Equity /Tax saving mutual funds.

Methodology

1. The recent researches on IPOs in different markets for different industries in various countries have focused on under-pricing and show that the under-pricing is evident in case of book-building route as well as fixed price-band offers.
2. This study attempts to identify causal variables behind high initial gains for Indian IPOs using earlier researches and testing them over a sample of Indian IPOs
3. To examine the influence of non-fundamental factors and signaling effects on under-pricing.

Limitation of the Study

1. Only secondary market is taken into consideration. Primary markets dealing are ignored.
2. Perception of Chennai investors alone taken. So, it cannot be generalized.
3. Only Individual investors are taken into consideration. Institutional investors are ignored.

Analysis and Interpretation

The main objective of this study is to find out the major factors considered by investors in equity investment. Some 24 factors have been taken into consideration. They are company image, Risk factors of shares, financial performance of the company, Good industrial performance related to shares, Change of price appreciation of shares, Expert views, Growth in Dividend per share, Growth in P/E ratio, Growth in earnings per share, Book value per share, management group, size of the company, products and services of the company, frequent issue of bonus share, accumulated reserves of the company, value of assets of the company, Changes in sales over last 3

years, Changes in profit over last 3 years, insider trading information, Share price movement for past 6 weeks, Technology level of the company, Stock brokers' advice, Stock split available in the company, proposed merger and acquisition of the company. Factors analysis is used to find out the major factors considered by investors in equity investment. From the result, all the 24 variables have been grouped in 9 factors. The first factor is considered as the most important factor considered by individual equity investors. The variables included in this factor are: Company Image, financial performance of the company, Management group, Size of the company, Accumulated Reserves of the Company, Values of the assets of the company, Insider trading information, Technology level of the company.

Summary and Findings

1. There is a chance of price rigging on listing as promoters shall try to bail out associate members.
2. Research has found that IPOs are underpriced an average of 15 percent. A common explanation for this gap between the initial and close-of-the-first-day prices is that firms going public are risky ventures and investment banks are prudent to set initial Prices low.
3. An alternative explanation for underpricing is that it is in the interests of some of the parties to the sale -- mainly the institutional investors, venture capitalists, and underwriting investment banks --to have a low initial price.
4. Social scientists use agency theory to explain the actions and motivations of individuals. In economics, agency theory reveals the conflicts between interests of managers and owners of firms.
5. Agency theory predicts that managers will be motivated to prevent IPO underpricing because they typically stay with the firm after the IPO and want it to have the capital needed to succeed.
6. Managers who serve on boards of directors can deter underpricing by monitoring the efforts of other players and making the case for higher prices when the IPO is being presented.
7. Company Image, financial performance of the company, Management group, Size of the company, Accumulated Reserves of the Company, Values of the assets of the company, Insider trading information, Technology level of the company are the important factors considered in equity investment by individual investors.
8. All the investor irrespective of their experience consider company image, risk factor of shares, financial performance of the company, chances of price appreciation of shares.
9. Both the investor who read investment related information or not reading consider company image, chances of price appreciation of shares as an main factors.
10. Investor who do not have the habit of reading equity investment related information normally consider qualitative factor such as management group, company image, size of the company, product and services of the company as the important factor. Investor who normally read equity investment related information consider quantitative factor such as Risk factor, growth in EPS etc., as important factor.
11. Company image, Risk factors of shares, financial performance of the company are the important factors consider by all occupational group of investors.
12. Company image, Risk factor of shares, financial performance of the company, chances of price appreciation are the factors consider by the investor irrespective of their frequency on change in equity investment .

Suggestion

- ❖ It can be concluded that modern investor is mature person. Purpose of this study was to know the investment preference of investors.
- ❖ This study find government securities and fixed income securities are most preferred in comparison to other.
- ❖ Mutual fund is the least preferred security, as it gets least rank in preference. Arrangement of securities from most preferred to least preferred according to response were: government securities, fixed income securities, equity securities, debentures, mutual funds.
- ❖ It also shows that investor is risk averse. Another objective was to identify the factors responsible for investment insecurities.



- ❖ This study found that investor is strongly agreed that they invest in security for the purpose of safety. Availability of funds and high liquidity also influence them to invest.
- ❖ The individual investors prefer investments according to benefit and safety provided by security. For example, people who want tax benefit invest in government securities. Occasion of blind investment are scarce, investors who invest on recommendation of people, they mainly invest on the recommendation of family and financial experts.

Conclusion

Choosing IPOs based on rumors and hearsay must be avoided. Since the economy is in a recovery stage, there is no dearth of IPOs in the market. Therefore, an investor has to be choosy while investing in IPOs. Investing in a selected few IPOs gives better returns compared to investing in all IPOs. This will minimize the chances of making a loss to a great extent. An Investor must altogether avoid those IPOs which have been assigned a low grade. By choosing highly graded IPOs, an investor can minimize the chances of making losses.

IPO which are getting heavily subscribed by QIB. The researcher carried out the study in this area with the objective of finding out the various parameters that governs the investor's perception towards Equity/Tax saving mutual funds. The researcher had identify the following major parameters namely, Liquidity, Rate of Return and Market share the elite performance of the Equity/Tax saving mutual fund. The researcher has taken the growth in NAV in order to arrive at the elite performance of Equity/Tax saving mutual fund offered by Consultant. As the organization plays with the funds of the investment it is the moral responsibility to wealth maximization of the investor's. Hence it is imperative that the organization should be cautious in making investment towards the various financial instruments which safeguard the interest of the investors.

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