



'IPO' INVESTOR PURCHASE DECISION: ECONOMIC FACTORS VIEW

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Abstract

IPO is one of the few market acronyms that almost everyone is familiar with. Before an IPO, a company is privately owned; usually by its founders and maybe the family members who lent them money to get up and running. In some cases, a few long-time employees might have some equity in the company, assuming it hasn't been around for decades. The founders give the lenders and employees a piece of the action in lieu of cash. Why? Because the founders know that if the company falters, giving away part of the company won't cost them anything. If the company succeeds, and eventually goes public, theoretically everyone should win. A stock that was worth nothing the day before the IPO will now have value.

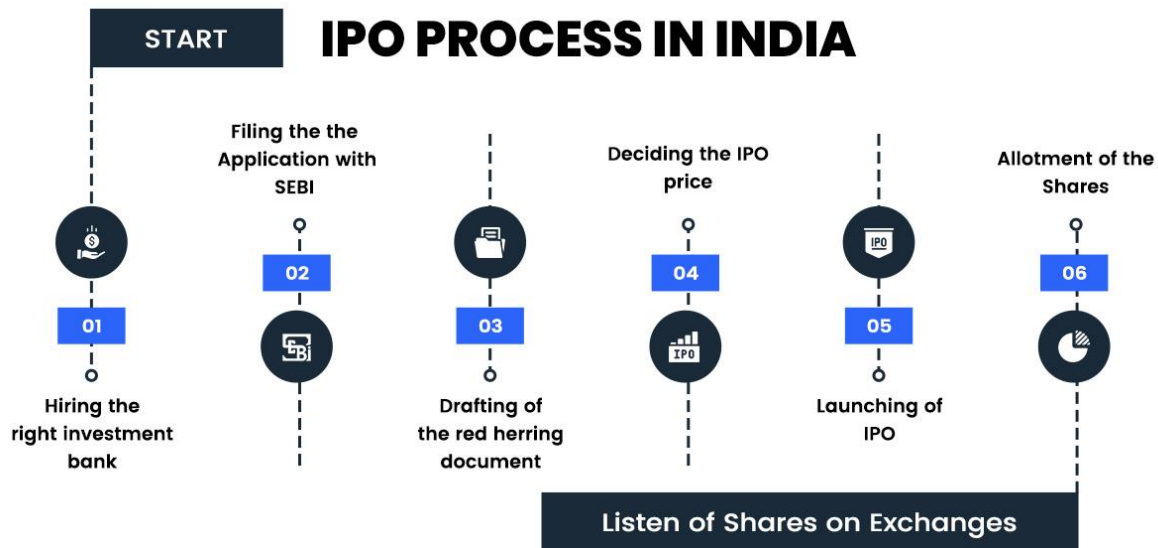
An IPO is a big step for a company as it provides the company with access to raising a lot of money. This gives the company a greater ability to grow and expand. The increased transparency and share listing credibility can also be a factor in helping it obtain better terms when seeking borrowed funds as well. In 2021 witnessed a surge in IPOs (initial public offers) in India and globally. As per the 2021 Ernst and Young Global IPO Trends Report, 2,388 IPO deals mobilised \$453.3 billion globally in 2021 which is 60 % more in terms of volume and proceeds as compared to 2020. In India, 63 companies mobilised Rs. 1.19 trillion through IPOs, which is more than four times the amount raised in 2020 (Rs. 26,628 crore). This paper made an attempt to study on various macro economic factors impact on Andhra Pradesh state investor purchase behavior of different IPO's.

Keywords: Economy, Awareness, Investment, Options.

Introduction

An IPO investor is a person or organization that purchases shares offered in an initial public offering of a company. Investors make this purchase with the expectation of making a profit. The process of buying IPO shares is very different from buying shares on the stock market. The company allot the shares within 7 days after the IPO closes. Previous studies determined the relationship between the IPO timing (based on IPO data of 10 companies) and the key indicators such as stock market index adjusted for inflation and GDP growth rate. He found a positive relationship between the number of IPOs and the stock market price levels. However, it was unable to identify any positive correlation with the phases of the economic cycle. Eminent research suggests that a large number of IPOs has a positive correlation with both high level of equity indices and favorable conditions for business. Although they have a tendency to underestimate the issuing company.

There may be a strong intuitive appeal attached to the belief that relationships exist between macroeconomic fundamentals and equity returns, but we lack correspondingly strong empirical support that goes with it. Macroeconomic variables can be understood as: Variables reflecting general economic conditions, variables related to interest rate and monetary policy, variables concerning price level and variables involving international activities.



Source : Economic Times :06/2023.. Top IPO Performers in 2022

General economic conditions include variables like industrial production index or unemployment rate. The variables concerning interest rate and monetary policy include interest rate, term spread, default spread, money supply, etc., Variables focusing on price level may be general price level index or inflation rate.

Variables involving international activities are exchange rate or foreign direct investments (FDI), etc., Studies have used different macroeconomic variables to examine which factors have the most critical impact upon stock returns. One popular area of financial research is studies on the factors that affect stock returns. As per the basic standard stock valuation model, determinants of stock price are “expected cash flows” from the stock and “required rate of return” as per the riskiness of the stock. A macroeconomic indicator affects a firm’s cash flows and also influences risk-adjusted discount rate. The required rate of return comprises of risk free rate along with the measure of asset’s risk. This nominal risk free rate depends upon real interest rate as well as expected inflation.

Initial public offerings (IPOs) in 2022 have helped investors make better money than the previous two years, with 17 of the 22 listings currently trading above their issue price amid sharp swings in the stock market. Some IPOs such as Adani Wilmar, Veranda Learning, Venus Pipes, and Campus Active wear, have more than doubled over the issue price, while another dozen have returned between 15% and 80% over the issue price.

Macroeconomic Factors

A macroeconomic factor is a pattern, characteristic, or condition that emanates from, or relates to, a larger aspect of an economy rather than to a particular population. The characteristic may be a significant economic, environmental, or geopolitical event that widely influences a regional or national economy. Factors like

- GDP.
- Interest Rates
- Inflation
- Unemployment

Literature

Srinivas (2021) explains, It clearly shows that capital appreciation and safety in investment are the driving forces of the investment. Higher annual returns are also motivating investors towards investment in IPO. Most of the respondents are investing their funds for very short period of time i.e. less than 3 months. They are subscribing shares in primary market through IPO and are selling in secondary market for higher return. Long term investment reduces risk and increase return so investors should invest for long time. Fundamentals of the organisation is another important factor considering while investment in IPO. More than half of the respondents are looking at fundamentals of the organisation.

Aidrous & Glavino (2020) studied, the relationship between the number of IPOs and macroeconomic factors is a relatively not welldeveloped area of the IPO process study. The question of applicability of the research results to the modern global IPO market and the market of GCC region, in particular, remains open and requires verification. The majority of the studies refer to the impact of macroeconomic factors on the number of IPOs, not considering the impact on the amount of raised capital. The size of the IPO market is determined not only by the number of IPOs, but also by the amount of raised capital.

Kiran Kumar & Bhawan (2016) mentioned that, there is a nexus between Indian stock market and selected macro-economic indicators by performing necessary analysis that addresses long run and short run relations. Specifically, the study employs monthly data from July 2001 to July 2015 along with Johansen's co-integration analysis and granger causality tests are performed. The results are interesting and useful in understanding the dynamic relations between stock returns and macro-economic factors. The study finds support for the presence of one co-integrating vector between Sensex and macro-economic indicators viz., exchange rate, money supply, WPI and treasury bill rate. Further, the study observes that three out of four factors (viz., WPI, money supply and T-bill) are relatively more significant in a long run relation. Turning to short run relations, the study reports bi-directional causality between Sensex and exchange rate. Inflation and money supply show positive and significant relation with stock returns. Interest rate shows negative and insignificant relation with stock market returns. We can say that Indian capital markets are showing signs of market inefficiency because of co-integration between stock returns and macroeconomic indicators.

Naik and Puja (2012) investigated Indian equity market through BSE Sensex and macroeconomic variables like, IIP, wholesale price index (WPI) as a measure of inflation, money supply, T-bill rates as a measure of interest rates and exchange rate. Monthly data is studied from April 1994 to June 2011. To check for long run equilibrium relationship, Johansen's co-integration and VECM are applied. Stock prices are positively related to money supply and IIP, and negatively related to inflation. Exchange rate and short term interest rate are found to be insignificant in explaining stock returns.

The result of the study of Ameer, R. (2012) established a negative relationship between the interest rates level and IPO volumes. The paper proved a positive correlation between industrial production and the number of IPOs in Malaysian emerging market. That study confirmed the impact of macroeconomic factors on the number of IPOs in the developing and developed capital markets. As a result of studying dependence of the IPO market of Poland on the macroeconomic factors, Meluzin, T., Zincecker, M. Lapinska, J. (2014) found the relationship with the percentage year to year change of GDP and changes of WIG (Warszawski Indeks Giełdowy) of the Warsaw Stock Exchange. However, in their study, they analyzed only the dependence of the number of IPOs from the macroeconomic factors, not taking into account the amount of capital raised during the IPO.

Objectives

1. To study various economical factors impact on IPO purchase decision by investors in Andhra Pradesh.
2. To know the macro economics factors influence on their IPO purchase decision.
3. To explore IPO purchase factors by investors and concern issues and challenges.

Hypothesis

H₀₁: The Inflation rate will have negative impact on IPO purchase decision.

H₀₂: The Unemployment rate in the country has negative impact on IPO purchase decision.

H₀₃: The Interest rates of various financial institutes will have a negative impact on IPO purchase decision.

Sample & Sample Size

The sample consisting of stock market traders by brokerage institutes and individual investors from Andhra Pradesh metro cities (Vizag, Vijayawada & Guntur) region who are actively involving share market activities from last 5 years.

A sample of 100 such respondents opinion was captured with the help of a short questionnaire consists of macroeconomic related issues to measure their opinion in this regard.

Data Collection

Data collection was made with the help of a short questionnaire containing various macro economic factors like inflation, interest rates and GDP etc.. and respondents requested to rate 5 point scale from strongly agree to disagree.

Factor Analysis (Influenced Microeconomic Factors)

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.810
Bartlett's Test of Sphericity	Approx. Chi-Square	9396.444
	df	28
	Sig.	.000

Before we proceed for factor analysis first the researcher tested the eligibility of the data by checking KMO- Bartlett's test which is a measure of sampling adequacy. The KMO value is 0.810 >0.6. Bartlett's Test of Sphericity indicates a measure of the multivariate normality of set of variables (Sig. value is less than 0.05 indicates multivariate normal and acceptable for factor analysis).

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.270	90.875	90.875	7.270	90.875	90.875
2	3.434	5.431	96.306			
3	.148	1.851	98.157			
4	.048	.597	98.754			
5	.034	.423	99.177			
6	.029	.361	99.538			
7	.021	.265	99.803			
8	.016	.197	100.000			

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Extraction Method: Principal Component Analysis.

The variance matrix indicating 90 % (statistically 65% variance valid) variance on tested variable, i.e 10 % of other factors are influencing to purchase IPO.

	Component	
	1	2
GDP	.342	.763
Interest Rates	.460	.063
Inflation	.461	-.261
Unemployment	.848	.100
Monetary Policy	.054	-.094
Exchange Rates	.652	.239
Political Factors	.734	.413
Trade Barrier	-	.282
	.474	

Table: Rotated Component Matrix

The below PRINCIPAL COMPONENT MATRIX gives the component matrix which is rotated using the VARIMAX rotation technique which gives the ROTATED COMPONENT MATRIX .Rotation of factors helps in the better interpretation of factors. Since the first factor in the ROTATED COMPONENT MATRIX is heavily loaded with the policy choosing factors. The Principle component matrix extracted only 3 most influencing factors whose *Eigen value* is more than 1, among tested 08 factors.

The table revealed that unemployment rate in the country, political factors and GDP growth rates are the most popular influencing factors for IPO purchase buyer’s decision parameters. The investor always thinks in this direction before purchasing of any IPO in the market.

H_{01} : The Inflation rate will have negative impact on IPO purchase decision.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	99.873 ^a	12	.000
Likelihood Ratio	105.288	12	.000
Linear-by-Linear Association	43.016	1	.000
N of Valid Cases	100		
a. 13 cells (65.0%) have expected count less than 5. The minimum expected count is 1.60.			

The above chi square test indicating the significant value less than 0.05 (0.000), hence the **Hypotheses Rejected**. i.e the inflation rate will no way affected with IPO purchase decision by investors . The respondents opined that, they won't consider inflation rate before opting of any IPO in the market.

H₀₂: The Unemployment rate in the country has negative impact on IPO purchase decision.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	48.704 ^a	4	.072
Likelihood Ratio	53.196	4	.000
Linear-by-Linear Association	31.955	1	.000
N of Valid Cases	101		

The above chi square test indicating the significant value is greater than 0.05 (0.073) , hence the **Hypotheses Accepted**. i.e as per respondents opinion unemployment rate in a region certainly will have negative impact on purchase decision of a IPO by investors and first they will focus on lively hood rather than investments.

H₀₃: The Interest rates of various financial institutes will have a negative impact on IPO purchase decision.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	148.658 ^a	16	.000
Likelihood Ratio	146.892	16	.000
Linear-by-Linear Association	33.397	1	.000
N of Valid Cases	101		
a. 16 cells (64.0%) have expected count less than 5. The minimum expected count is 1.66.			

The above chi square test indicating the significant value less than 0.05 (0.000), hence the **Hypotheses Rejected**.

i.e the interest rate of different financial institutes will not have any significant negative impact on IPO purchase in Andhra Pradesh Region.

Discussion of Results

Major factors considered are capital appreciation, regular annual income, tax benefit, higher return, safety and liquidity. Responses have been invited from 50 respondents. More than one response has been given by the respondent. Any investor parks his/her surplus for capital appreciation to beat inflation and improve his/her purchasing power. In any country, there are few investors who depend only on stock market for their income. Generally they invest in securities which declare stable dividend. Investors require return with low or no tax. Capital market provides this opportunity to the investors. Many studies revealed that return from investment in shares is more than return from banks and other alternatives. An investor can get more than 12% of return from stock market. Some recent IPO had given more than 50% of return in India. Safety is always an important criterion in any investment. There is a misconception about investment in stock market. People believe that it is not a safe investment alternative. But many regulations are imposed by SEBI to protect the investors in stock market. Finally liquidity i.e. being able to convert the stocks into cash as and when they require also plays an important role in decision making.

The results are interesting and useful in understanding the dynamic relations between purchase decision making and macro-economic factors. The study finds support for the presence of one co-integrating vector between investment environment and macro-economic indicators viz., exchange rate, money supply, WPI and treasury bill rate. Further, the study observes that three out of four factors (viz., GDP, Unemployment, Inflation and Interest rates) are relatively more significant in a long run relation. Turning to short run relations, the study reports bi-directional causality between Sensex and exchange rate. Inflation and money supply show positive and significant relation with stock returns. Interest rate shows negative and insignificant relation with stock market returns. We can say that Indian capital markets are showing signs of market inefficiency because of co-integration between stock returns and macroeconomic indicators.

Interest rate is another fundamental macroeconomic variable having significant impact upon stock returns. Reduction in interest rate reduces the cost of borrowing, serving as an incentive for firms and increasing their stock prices. Hence, interest rates and stock returns must show negative relation with each other. Gjerde and Saettem (1999) also show interest rate to be negatively related to stock prices. Impact of exchange rate on an economy depends upon its level of international trade and also trade balance. Depreciation of currency leads to an increase in demand for exports, thereby increasing cash flows in the country under the assumption that demand for exports is elastic. In such a case, the impact of exchange rate depends upon whether the firm is an exporting firm or import dominant.

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