DETERMINANTS OF OVERPRICE IPOS IN INDIA

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ABSTRACT

Banks and Financial Institutions were main players of resource mobilization, for savings and allocation in Indian Economy. Due to pressure of globalization and slow growth of economy the process of economic liberalization and deregulation was initiated in the year 1980, but gained momentum from 1992. It resulted into expansion and growth of Indian Capital Market both at primary and secondary segments level. So investors could get more returns from resource mobilization thru banks and financial institutes to equity participation.
This paper examines the impact of over price IPO's issued using a sample of Indian IPOs that tapped the primary market during 2001-2011. It includes analysis of post listing pricing behavior of some of the equities listed on NSE and BSE. In the present investigation it have been attempted to discover in general the rates and trends of returns, both short term and long term on the sampled over price IPO's listed on India's prime stock exchanges i.e. National Stock Exchanges and Bombay Stock Exchange.
Credit rating reduces uncertainty about firm value. It is the value certainty that matters, not the value only. *Credit ratings also reduce the degree of price revision during the bookbuilding process and the aftermarket volatility in the post-IPO period. credit ratings convey useful information in reducing the success of overprice. It redices uncertainty of the issuing firms as well as information asymmetry in the IPO markets.*

Key words:*IPO, Over Pricing, Retail Investors, Trends of Returns, credit rating, Determinants of overprice*

INTRODUCTION

Initial Public Offerings (IPOs) in India and most other countries was usually underpriced. A stock issue is deemed to be underpriced if the closing price on the first day of listing is higher than the IPO price. IPO market in the country has been one of the most reliable and hottest market where you see almost everyone with a demit account going for any and every IPO that comes into the market. This has worked fine for many years as even the most illogical companies also got through with premiums and folks made money. However the recent IPO action has taken the entire investing community by storm. The failures are mind-boggling.

IPO

An initial public offering is the process by which a private company becomes publicly traded on a stock exchange. Once a company is public, it is owned by the shareholders who purchase the company's stock when it is put on the market.

Corporate may raise capital in the primary market by way of an initial public offer, rights issue or private placement. An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. This Initial Public Offering can be made through the fixed price method, book building method or a combination of both.

Sales effort, a successful sale hinges on the demand for the product you are selling - a strong demand for the company will lead to a higher IPO price. Strong demand does not mean the company is more valuable - rather, the company will have a higher valuation. In practice, this distinction is important. Two identical companies may have very different IPO valuations merely because of the timing of the IPO as compared to market demand. An extreme example is the massive valuations of IPOs at the peak of the tech compared to similar (and even superior) tech IPOs since that time. The companies that went through IPOs at the peak received much higher valuations - and consequently much more investment capital - merely because they sold when demand was high.

Another aspect of IPO valuation is industry comparables. If the IPO candidate is in a field that already has comparable publicly traded companies, the IPO valuation may be linked to the valuation multiples being assigned to competitors. The rationale is that investors will be willing to pay a similar amount for a new company in the industry as they are currently paying for existing companies.

Credit Rating

A credit rating evaluates the credit worthiness of a debtor, especially a business (company) or a government. It is an evaluation made by a credit rating agency of the debtor's ability to pay back the debt and the likelihood of default. Credit ratings are determined by credit ratings agencies. The credit rating represents the credit rating agency's evaluation of qualitative and quantitative information for a company or government; including non-public information obtained by the credit rating agencies analysts.

Credit ratings are not based on mathematical formulas. Instead, credit rating agencies use their judgment and experience in determining what public and private information should be considered in giving a rating to a particular company or government.The credit rating is used by individuals and entities that purchase the bonds and equity through IPO to determine the likelihood that the bond and equity will give return.

A poor credit rating indicates a credit rating agency's opinion that the company or government has a high risk of defaulting, based on the agency's analysis of the entity's history and analysis of long term economic prospects.

Literature Review

A review of the literature on the subject confirms that even though the book building methodology is an improvement over fixed price IPOs, issues continue to be significantly underpriced. For example, on average, according to studies, under pricing in the US from 1980 to 2001 was 18.8 per cent. In the dotcom boom years of 1999 and 2000, under pricing was much higher at about 72 per cent and 56 per cent, respectively. (Agarwal et. al. (2002); Su and Fleisher (1997); Hunger (2005)) Kutsuna, Dimovski and Brooks (2008) found a statistically significant positive relationship between short-run underpricing and the offer price. Further, Jain and Kini (1999b) found that a low offer price is associated with lower short-term performance. Fernando, Krishnamurthy and Spindt (1999) found a U-shaped association between these two variables, and they pointed out that the offer price may also indicate the extent of underpricing but its level seems to have little economic significance.

The existing empirical evidence is unanimous on under pricing of IPOs (positive market-adjusted initial day return). Literature has also shared common views on the most observed IPO pricing performance anomaly, i.e., under pricing or over performance followed by underperformance for IPOs. However, the literature indicates divergent findings regarding the continuity of underperformance in the post-listing scenario. Most of the studies document underperformance for the new issues up to a period of three to five years from listing.

As research on the long-term stock performance of IPOs issued in the Indian market has remained a relatively unexplored area, study of Indian IPO market for last eight years of after-market pricing performance on the listing day as well as in the long run, i.e., up to 36 months from the listing day.

OBJECTIVES

To understand IPO process, credit rating, over and under IPO price
To analysethr IPO listed in last 8 years
To know determinants of Overprice IPO

IPO Pricing Process

Offering price depends on several things, like market condition, growth rate of the company, profitability to name a few.

The determination of Initial Public Offering price depends heavily upon the company and market conditions. It is the price at which the underwriter offers the new issues to public. The underwriters keep several factors in their mind while setting the public offering price. These are financial statements of the company, that is, if or not it is profitable, company's growth rates, public trends, current market conditions, investor confidence to name a few. Sometimes the underwriters go for a road shows, widely recognized as the "dog and pony show", to create a hype about their issues. The determination of initial public offering price also depends on the success of those road shows.

Process of Fixing the Price:

Initial Public Offering Price is determined through several phases. These are discussed below.

- Firstly, the company and its underwriters determine a price range within which they are going to set their stock's price.
- Then the underwriter puts together a prospectus which comprises the price range. That prospectus is submitted to the Securities and Exchange Commission (SEC).
- The next phase of pricing starts just before the day of offering. In this phase the company and its underwriter fix the final price at which the public can buy the issue.
- Finally the phase of observation. That is, the company will observe its value assessment by the market after the issue starts trading.

Under pricing and overpricing

Often the pricing of an initial public offering (IPO) is below its market value. When the offer price is lower than the price of the first trade, the stock is considered to be *underpriced*, as per the conventional notion of IPO pricing. A stock is usually only underpriced temporarily because the laws of supply and demand will eventually drive it toward its intrinsic value. It is believed that IPOs are often underpriced because of concerns relating to liquidity and uncertainty about the level at which the stock will trade. The less liquid and less predictable the shares are, the more underpriced they will have to be in order to compensate investors for the risk they are taking. The conventional argument given for 'under pricing' is that an IPO's issuer tends to know more about the value of the shares than the investor, and therefore, the company must under price its stock to encourage investors to participate in the IPO.

IPO Grading

IPO grading is designed to provide investors an independent, reliable and consistent assessment of the fundamentals of new public issues. It includes an assessment of business and financial prospects, management quality and corporate governance. It is Introduced under the aegis of Securities and Exchange Board of India (SEBI) regulation, an IPO Grading is particularly useful to retail investors who are seeking to invest in companies that are unknown in the equity markets.

Analysis of last eight years IPOs

In the 1980s, 1990s, and even the early 2000s, all that a company need to do in India to spike up the hype about their organization was to simply announce an IPO. The very act of announcing a public offer used to result in over-hyped discussions about the impending IPO and a subsequent heated mad rush towards applying for the public issue. An IPO announcement – for the investors – was a sure shot god gifted method of making the regulatory bales of hay; and of course, the sun was supposed to shine on forever. The corollary to all this was that there was no particular killing need for any corporation to go overboard in attempting to hype up their IPO. In fact, hyping up an IPO was a sure way to generate cynicism and negative views from the public – about why the company needed to advertise so much in the first place? In essence, all that a company needed to do then was to release an excuse of an advertisement in one of the main newspapers, and leave application forms for the IPO in hundreds of thousands lying around banks and other investment hubs – and the deed was done; the IPO was oversubscribed.

The situation has changed somewhat in 2007. In the last five years, 500 new stocks began trading in NSE, but already 60 of them have dropped below 90% of their IPO prices -a rarity in the still short history of India's stock markets. It's been turbulence from the word go for recently listed scrips. Shares of four out of five companies that made their initial primary offerings (IPO) in the first quarter of 2007 are trading deep in the red.

While the shares of Muthoot Finance are trading just 0.8% above the issue price, those of PTC Financial Services, Shilpi Cable Technologies, Paramount Print packaging and, Future Ventures, are trading on listing 32%, 66%, 26% and 17%, respectively below the issue prices.

The primary markets have been bad for retail investors over the last few years. Out of 52 IPOs that came out in 2010-11, 41 are trading in the red with as many as 23 down over 40% from the issue price. Among those that have managed to remain afloat are the likes of Coal India, Talwalkars Fitness, Persistent Systems and some smaller companies.

SKS Microfinance may be a case in point. The company listed before the regulations had evolved completely and the impact of this is being felt by investors who have by now lost 70% on the issue price.. SKS for example was simply too easy to pick out of the pack. If something is so big and too good to be true, then it is in fact that way.

Nearly two-thirds of the initial public offers (IPOs) in the Indian market since 2008 are trading below their issue price, even though many of these firms gained immediately after listing.

Of the 240 companies that have raised money via the primary markets since 2008 to 2015, shares of 142 companies or 59.2% of such firms are trading below their issue price currently, while the stock prices of 121such companies are above their issue price. Six of these companies have been suspended.

V-Guard Industries Ltd and Jubilant Foodworks Ltd, which listed in early 2008 and early 2010, respectively, are the best performing IPOs since 2008, and they have posted returns of 1,287% and 847%, respectively, from their offer price. The five best performing IPOs include Manjushree Technopack Ltd, Gallantt Ispat Ltd, National Buildings Construction Corp. Ltd.On the other hand, the worst performing IPOs since 2008 are Resurgere Mines and Minerals India Ltd, Nu Tek India Ltd, Raj Oil Mills Ltd, Pradip Overseas Ltd and Niraj Cement Structurals Ltd.

Above analysis is presented in following tabular form

Data of some IPO listing during 2008 to 2015									
Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Listing	38	20	64	37	51	4	6	20	240
gain on listing	20	14	42	17	9	1	4	12	119
Loss n listing	18	6	22	20	42	3	2	8	121
Cuurently in loss	29	13	44	21	23;	1	1	10	142

Table : loss or gain on listing (Prepared by auther)

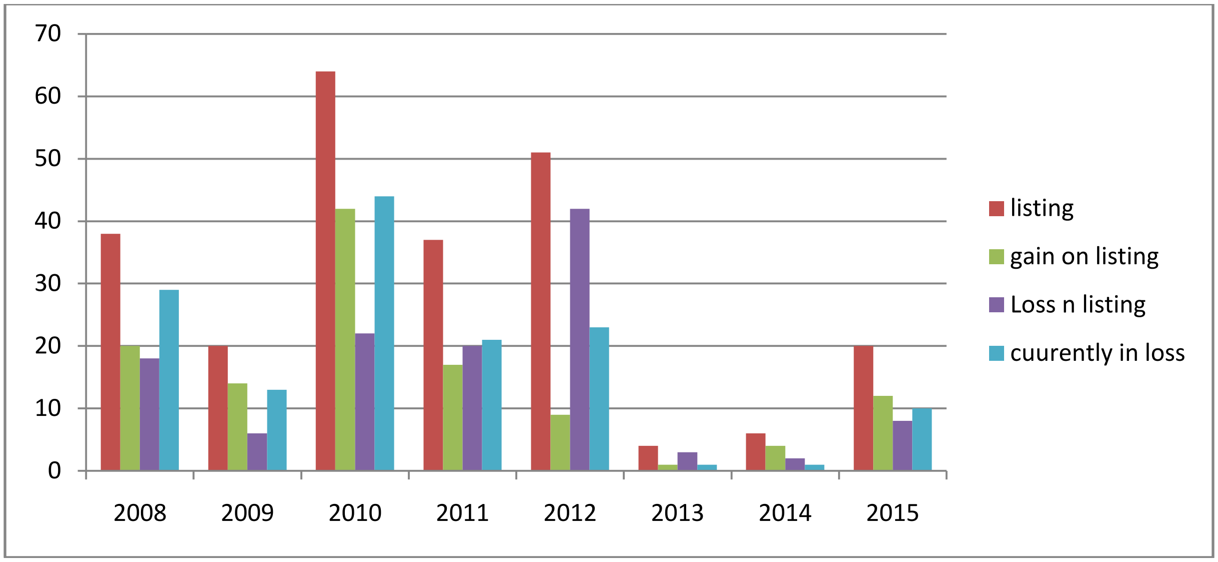

Figure 1: loss and gain on listing

Above analysis shows that out of 20 top IPOs of last 5 years only7 gave the positive return till today from the day of listing. 4 have lost its 80% value from the day of listing. Almost 6 have lost their 50% value from the day of listing to till today, rest have lost approximately 20 % value. It shows that more than 50% IPOs of last five years were overpriced and lost their values after listing.

Determinants of over price IPOs:
On basis ofabove analysis and literature review determinants are as follows :

Tightened Monetary Situation: RBI is tightenrd monatory policy due to continuoud devaluation of Indian currenc , It can be One explanation for this change is the tightened monetary situation. India has been raising commercial bank's reserve requirement ratios, restricting the proportion of total assets that can be lent out. This is intended to drain the economy of excess money and tame rising prices. It could also be affecting the cash flows of major institutions, whose reticence in the market passes through to individual investors.

Given the tighter monetary conditions, institutions are no longer in a position to force up the prices of a range of new stocks, and this goes some way to explaining the recent poor debut-day performances

IPO pricing system (book building process): The simple fact is that the IPO pricing system offers far too much power to issuers, underwriters and cornerstone institutional investors. Company has been given power to set IPO price on fundamentals of company and industry P/E ratio. This lead to use of brand image in price of IPO. Small and retail investors shied away from the IPO market in 2009 after the meltdown of 2008 amid growing perception that corporate in connivance with merchant bankers are overpricing the offers in their lust for big money.

Most of the IPOs so far in 2011 have been on India's two growth boards, where the **average price-to-earnings ratio** is more than double the market level, these stocks end up in a slump.

Demond and Supply Gap: In many cases, the number of shares offered is so small proportional to market demand that massive oversubscriptions are inevitable. The institutional investors get in early and get out quickly, leaving retail investors who participate in the secondary market high and dry. While this may have had an impact, the problem relates to the pricing of these newly-listed equities. If demand is higher than supply than IPO will oversubscribed and price will be high in book building process.

Asymmetric information to Investor: Very Much importance is given to underwriters investment bankers and owners profitability and IPO marketing through media , At the same time, retail investors are getting sick of over flow of asymertic information before listing of IPO. A survey conducted by Hexun.com, China's biggest business news website, found that 64% of respondents don't plan on subscribing for future listings. When asked why, 27% said it was because IPO prices were inflated and 19% blamed excessively high P/E ratios. Either way, they are less willing to pay for assets they believe to be overvalued. Similar is the story of Indian Investors.

Investor psychology: Companies gave a return on IPO on the listing of before 2000. This fact has made a psychology of good returns and up to 2008 there was over subscription of IPO at any Book building price but after biggest IPO of reliance power, The Small and retail investors shied away from the IPO market in 2009 after the meltdown of 2008.

Company's IPO Psychology: Investors growing perceptions that corporate in connivance with merchant bankers are overpricing the offers in their lust for big money. . IPO pricing continues to remain aggressive and merchant bankers are using innovative methods and asking investors to look at the issue as they are more concerned about increasing their commissions. Company marketed the good return to QIPs to quate high IPO price and attract retail investor for IPO but the returns are nothing great for the retail investors.

One recent survey on a very famous phama and FMCG company Patanjali, their advertisement expenses are 7% of revenue and their revenue growth is 1b to 1.5 b in one year where FMCG sector is not showing a even good growth and their shares also in loss. Every one is waiting for Patanjali IPO. This much of high growth is due to Ramdev Baba, same benefit company is expecting in IPO of patanjali ayurvedic.

Retail investors' sentiment taking a hit at a time when a number of PSUs , as also private sector firms, are lining up with offers. ONGC FPO was announce in June 2011 but Govt. has postponed two times this FPO because of bearish trend of market.

Data Analysis : Data of biggest IPO listed between 2008 to 2011 is analysed on P/E ratio, credit rating and return till 2011.(return with in three years ie short term)

Biggest IPO of last 5 years	Date of listing	Price on listing	Price at year end 2011	Profit / loss from listing	IPO rating	Industry P/E Ratio
DLF	05-Jul-07	525	195	-62.86%	4	Highest 305.6 Lowest 5.2 Peer group Average 51.4
power grid	5-Oct-07	52	124.6	41.59%	4	No listed companies
power grid	25-Nov-10	90	100.5	11.67%	4	No listed companies
Idea	09-Mar-07	75	79.2	5.60%	4	Highest 43.6 Lowest 17.4 **Industry Average** 37.6
Mundra port	27-Nov-07	88	124.6	41.59%	4	No listed companies
BGR Energy Systems Limited	03-Jan-08	480	185.5	-61.35%	4	Highest : 74.40 Lowest : 43.50 Industry Composite: 56.24
Reliance Power	11-Feb-08	450	72	-84.00%	4	Highest 180.4 Lowest 6.2 Industry Composite 18.0
REC	12-Mar-08	105	148.75	41.67%	4	PFC is 24.4
Adani Power	20-Aug-09	100	67.85	-32.15%	4	Highest: 72.8 Lowest: 8.9 Industry Composite: 20.8
OIL India ltd	30-Sep-09	1050	1168.7	11.30%	4	Highest 37.3 Lowest 7.3 Industry Composite* 17.7
NHPC	01-Sep-09	36	19.05	-47.08%	4	Highest: 65.9 Lowest: 8.6 Peer Group Average: 20.8
JSW power ltd	04-Jan-10	95	38.75	-59.21%	4	Highest : 462.50 Lowest : 11.50 Industry Composite : 22.80
India bulls Power Ltd	30-Oct-09	45	8.55	-81.00%	4	Highest 93.4 Lowest 10.6 **Industry Composite** 21.7
Coal India	04-Nov-10	245	300.3	22.57%	4	No listed company
SKS Finance	16-Aug-10	985	106	-89.24%	4	No listed company
DB Realty	24-Feb-10	468	47.8	-89.79%	4	Highest – Sunteck Realty 349.3 Lowest – Simplex Realty 0.8 Industry Composite 36.4

MOIL	15-Dec-10	375	230	-38.67%	4	Mining Industry P/E i) Highest: 225.0 ii) Lowest: 4.3 iii) Industry Composite: 22.5
L&T Finance	12-Aug-11	52	43.5	-16.35%	4	Highest 15.4 Lowest 7.6 Industry Composite** 10.6
Moothot finance	06-May-11	175	156.5	-10.57%	4	45.90 (only 1 co mannapuram)

Table 2: biggest IPOs of last 5 years(Prepared by Author)

The stocks are still trading at a price much lower than at what it was issued and listed since 2008. The overpricing is leaving very little on the table for investors. Against this, the year 2008 saw 30 IPOs mopping up Rs 17,000 corer, but shares of many these companies gave the investors modest-to-good returns. The experience was even better in 2007, when about 100 of them raised over Rs 32,000 corer and showered the investors with impressive returns. The fear is borne out of the fact that in the year 2010, companies -- be private or state-run entities -- mopped up over Rs 19,000 corer through 19 issues, but shares of most of these companies are now trading below the offer price.

Data analysis of companies listed between 2013-14 on credit rating profit performance

Name	Credit Rating Agencies	Capital Market rating	Listing	Todays Price	Profit Performance
Tara Jewels Limited	3	38	310	267.35	-13.76%
VKS Projects Ltd	1	-	168	88.55	-47.29%
Speciality Restaurants Ltd	4	48	181	176.6	-2.43%
Plastene India Limited	3	35	645	371	-42.48%
Samvardhana Motherson Finance Ltd	4	-	153	296.3	93.66%
Tribhovandas Bhimji Zaveri Ltd	3	40	156	225.95	44.84%
MT Educare Limited	4	40	47	53.3	13.40%
National Buildings Construction Corporation Ltd	4	47	125	376.35	201.08%
Olympic Cards Ltd	1	-	150	167.05	11.37%
Multi Commodity Exchange of India Ltd	5	50	85.5	137.15	60.41%
Goodwill Hospital & Research Centre Ltd	3	38	530	739.85	39.59%
Indo Thai Securities Limited	3	-	172	590.55	243.34%
Flexituff International Ltd	3	38	210	454.7	116.52%
Taksheel Solutions Ltd	2	35	220	384.95	74.98%
Onelife Capital Advisors Ltd	1	-	135	349.6	158.96%
M and B Switchgears Ltd	2	10	750	911.2	21.49%

Tijaria Polypipes Ltd	2	15	230	41.55	-81.93%
Inox Wind Limited			55	0.08	-100%
Adlabs Entertainment Ltd Stock			150	85.65	-42.90%

Table 3: credit rating and Profit performance(Prepared by auther)

In order to safeguard retail investors' wealth from low-quality IPOs, for the first time in the world, the Indian stock market regulator, SEBI, introduced grading of IPOs and hasmade it mandatory since May 2007. But when we analyse above table we cansay that Speciality Restaurants Ltd is in loss with IPO rating 4 and Onelife Capital Advisors Ltd , Olympic cards ltd is in profit with IPO rating 1. Companies with the same credit rating are showing different kind of profitability, so it can not be concluded that there is a direct relationship profitability or success of IPO with credit rating.

Company	P/E	Credit rating	profit
Shriram Transport finance	12.1	4	+ gain
Mahindra & Mahindra financial services	12.3	4	-tive gain
IDFC	15.4	4	-tive gain -
Rural electrification corporation	7.6	4	-tive gain
Power finance corporation	8.3	4	+tive gain
edelwise	9.5	4	-tive gain
Sundaram Finance	7.7	4	-tive

Data tiveanalysis of P/E ratio and profit performance

Table 4: P/E ratio and profit performance(Prepared by auther)

It can be concludde that same credit rating and almost same P?eration than also profitability is different. P/E ratio credit rating and other similar factor not making high impact rather than determinants discussed earlier are more important.

For every issue the merchant bankers are changing valuation metric and are going for higher pricing of the IPO and they hope the investors would be interested every time.
IPO manipulation is back for sure. Indo Thai Securities hit an intraday high of Rs99 today; two firms belonging to related directors individually picked up 7.50 lakh shares worth Rs5.73 lakh each on the BSE & NSE; they made a combined profit of Rs 2.60 corer in a few hours. The regulators remain silent

The IPO market has again become a happy hunting ground for manipulators. Out of the seven offerings (most graded with 'below average' fundamentals) listed this month, three hit their all-time lows today, while two others hit their all-time highs. When will the powers-that-be step in?
five firms with one director and a profit of nearby Rs. 9 crore M and B Switchgear, with 'below average' fundamentals, closed at a premium of 71% after falling 34% from its listing price on 20th October. Five firms controlled by a common director seem to have made a consolidated profit of Rs 8.41 corer from the opening day's trading alone

Reasons behind overpricing IPOs-

1. It is the most important reason that many companies still regard the equity market only as a place to raise capital. Once they are listed they care little for investors' interests - offering meager dividends and being slow in disclosing information to the market.
2. Issuers, underwriters and institutions work together to ensure stunning first-day gain for new listings in domestic market. The victims of these unfair practices - which usually go unpunished - are retail investors.
3. Going through the prospectus of IPO companies anyone can easily make out a lot of conclusions. Alas, nobody actually goes that route and just simply rushes to get the IPO application without even knowing what the company actually does.
4. The hype created by media and so-called analysts. IPO's come with risk and the risk is clearly stated in the prospectus. If the "anguished investors" had read the prospectus, may be they wouldn't have been so anguished.
5. Merchant bankers are basically acting hand-in-hand with promoters and going for aggressive pricing. Going forward, unless pricing is made realistic, people will stay away from IPOs all of the IPOs in 2009 have been overpriced as most of them were ready to hit the market in 2007 and came to the market this year with the mindset of bullish market sentiments of that time.
6. Govt is also wants to get benefit of over pricing of IPOs for its disinvestment plan like corporate houses. The decision of government to postponed the idea to dilute stake in PSUs as investors were waiting for these IPOs to test the primary market.
7. There is nobody in the system promoters, lead managers, raters and regulator who can be held accountable for the profit-pump and share-dump operation that seems common in IPOs There are volumes of information in a public issue prospectus. But retail investors do not have access to one crucial number, that is, expected profits, that determines the most crucial aspect of a public issue valuation, whether over priced or under priced.
8. Merchant bankers are taking double P/E ratio for IPO valuation then existing peer companies to decide price band of IPO. L&T finance IPO all the peer group companies P/E ration is almost 12 but L & t finance IPO was valued by using P/E ratio 21.4.

<u>Findings</u>

1. People have made money in some of the issues but aggressive pricing is keeping them away from investing in fresh issues When Govt. is also wants its IPO market in bull market. After having burnt their fingers in the NHPC, IPO, retail investors stayed away from OIL IPO," Although the IPOs got subscribed over 20 times on the final day, NHPC got listed with a premium of eight per cent on debut trade. However, oil explorer OIL listed at a discount of three per cent below the issue price of Rs 1,050. Oil India mopped up a combined over Rs 8,800 corer.
2. The IPOs have been priced aggressively which is evident from the low retail investor participation. "After listing on the bourses the performance of most of the firms has been invariably below expectations, as the overpricing left very little on the table for investors."
3.Most other recently listed companies trading below issue price raised alarm in the market that investment bankers are overpricing the IPOs as their commission is linked to the issue size.
3. There was good response to the IPOs but it is still far from revival. Retail participation was considerably low and a volatile secondary market made investors stay away from putting money.
4.Bottom line is that investing comes with risks and as an investor should always asses such risks. There is nothing that comes free in this world. When people are ready to stash away their hard earned money, at least reading carefully through the prospectus for risks is mandatory.

SUGGETION

1. The SEBI may introduce various measures to try and tackle these problems.

a. It may be that new listing rules or a temporary suspension in IPO approvals if too many new stocks fall below their offering prices on debut.

2. Retail investor should analyse valuation and fundamentals ofcompay before investing.

3. Retailers should compare P/E ratio for book bulding process with industry average. If it is a new sector than they should check price to book value ratio.

4. If Private equity investors are there in company and they are making a plan to exit at IPO it means that company is at its maturity stage of life cycle and now the company will enter at decline stage. Investors shold keep watch on PE investor strategy.

5. Most important suggestion that IPO is the first chance to invest in the company but later on in secondary market you have chance every day, so don't rush take informed decision.

6. Don't believe blindly on the reports of merchant bankers of the IPO, these merchant banker's reports is atype of marketing strategy to sell the shares of the company.

Following is the data of some IPOs and their ratings after 2007.

IPO grading provides information on the IPO quality and, more specifically, helps retail investors in their investment decisions.

better graded IPOs exhibit higher liquidity and lower risk in the post-issue secondary market. We determine that underpricing is lower in the postgrading regime compared to a pre-grading regime, and underpricing is low for high-grade IPOs compared to the low-grade ones.

Retail investors' interest in IPO helps to improve the quality of the IPO. Better graded IPOs attract higher interest from the retail investors.

IPO grading has reduced short-term post-listing risk and improved secondary market liquidity. Highly graded IPOs enjoy lower risk in the periods immediately after listing in the stock exchanges.

CONCLUSION

The merchant bankers and promoters go hand-in- hand while pricing the IPOs, "While the bankers satisfied the promoters by pricing issues higher, they also filled their own pockets". The sentiments of retail investors have to be raised because retails are giving them fund without interest to run pramotors company. The pricing of coming IPOs would have to be much more realistic. They (companies) have seen what happened in the past otherwise retailers will bot invest in their FPO in future.

A number of recent IPOs, especially by private companies, have been criticized severely for being over-priced. the bankers has to price the offers reasonably and because high pricing is keeping retail investors away from the offers. The issuers have to leave enough on the table for retail investors also. Merchant bankers have to look at the interest of retail investors to maximize returns for the promoters.

Retail investors believe that IPO grading provides credible certification on valuation and fundamentals. On the other hand, institutional investors' subscription does not depend on IPO grading, they analyse fundamentals themselves.

The regulator's role in certifying the quality of an IPO to adds value to the market reduces if there are credible institutions that provide certification for IPOs as credit rating .

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