A Study on the Factors Influencing IPO Overpricing and Underpricing in the Global Stock Market.

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Abstract—: At the point when an organization opens up to the world and issues stock, it needs to raise capital and make shares accessible to general society. The IPO is endorsed by a venture bank, representative merchant or a gathering of intermediary merchants. They purchase the offers from the organization and afterward circulate the offers to financial specialists. The pricing of initial public offering mainly deals with underpricing and over pricing. As a result of the analysis IPO underpricing predominates overpricing in most of the articles. Large number of articles dealing with IPO pricing are analyzed and factors affecting IPO pricing are identified.

Keywords— IPO, Underpricing, Over pricing, Stock market

Introduction

The pricing of initial public offering mainly deals with underpricing and over pricing. An organization arranging an IPO commonly names a lead administrator, known as a bookrunner, to enable it to touch base at a fitting cost at which the offers ought to be issued. There are two essential manners by which the cost of an IPO can be resolved. Either the organization, with the assistance of its lead directors, settles a cost ("settled value technique"), or the cost can be resolved through examination of private financial specialist request information arranged by the bookrunner ("book building"). Corporates 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. Frequently the evaluating IPO is beneath its reasonable worth. Whenever the offer cost is lower than the cost of the principal exchange, the stock is thought to be underpriced, according to the ordinary thought of IPO evaluating. A stock is normally as it were underpriced briefly on the grounds that the laws of free market activity will, in the end, drive it toward its inborn esteem. It is trusted that IPOs are frequently underpriced due to concerns identifying with liquidity and vulnerability about the level at which the stock will exchange. The less fluid and less unsurprising the offers are, the more underpriced they should be keeping in mind the end goal to repay financial specialists for the hazard they are taking. The traditional contention is given for 'underpricing' is that an IPO's backer tends to find out about the estimation of the offers than the financial specialist, and thus, the organization must underprice its stock to urge speculators to partake in the IPO.

METHODOLOGY
A survey of writing would influence us to trust that Initial Public Offerings (IPOs) in India what's more, most different nations are generally underpriced. A stock issue is esteemed to be underpriced if the end cost on the principal day of posting is higher than the IPO cost. The IPO is an energizing time for an organization. It implies it has turned out to be sufficiently effective to require considerably more money to keep on growing. It's frequently the main path for the organization to get enough money to support an enormous extension. For the proprietors, it's at long last time to take advantage of all their diligent work. They generally grant themselves a huge level of the stock. They remain to make millions the day it opens up to the world. The IPO enables the organization to pull in top ability since it can offer investment opportunities. It can pay the administrators little wages in advance. It guarantees they can money out later with the IPO. (Das, 2016) It has been closed by the presence of no critical long-run underperformance or on the other hand finished execution in the Indian IPO stocks. (Alanazi, 2016) The down to earth suggestions including underpricing being basically identified with the free market activity. In this way, underpricing isn't an issue of the variety in the size of underpricing among the informative energy of specific speculations in regards to the underpricing saw in a specific market. underpricing exists as well as is among the most noteworthy on the planet, which repudiates the writing on IPO evaluating in exceedingly directed sectors. The modest number of protection financiers, the writers’ quality these large amounts of underpricing to some degree to the monopsony energy of protection guarantors in Saudi Arabia. Regarding the Sharia consistence impact, they find that it doesn't fundamentally lessen the underpricing of protection offerings.

(Sahoo, 2010) The financial specialists who are putting resources into IPOs through direct membership are procuring a positive market-balanced return all through the time of study. In any case, financial specialists who have purchased shares on the IPO posting day are winning negative returns. IPOs are underpriced on the underlying posting day and from that point fails to meet expectations contrasted with the market benchmark. The auxiliary's underlying day return is altogether identified with its parent's arrival over the book-building period, yet random to its parent's contemporaneous return. The present examination gives a far-reaching investigation of the short-run underpricing of introductory open offerings (IPO) in Bangladesh and endeavors to distinguish the variables which add to such underpricing in this intensely managed underwriting market

(Hasan, 2008). To put it plainly, this paper demonstrates that here and now underpricing of IPO stocks is adversely identified with their value chance for Korean IPO firms. The exact outcomes additionally recommend that market making of guarantors influence starting returns of IPO stocks.

The investigation depends on the assumption for the presence of huge data content from pre-IPO trade credit exercises. Our paper is sorted out as follows. Overall, our outcomes recommend that dynamic pre-IPO trade credit exercises will include esteem to IPO firms. This will enable them to encounter both smaller IPO underpricing and less expensive getting costs because of less enlightening mistiness of IPO firms (Park, 2007). It surveys the important speculations that have been proposed to explain IPO underpricing and talks about the exact evidence. Asymmetric data models accept that one of these gatherings knows more than the others and that the subsequent data grindings offer ascent to underpricing in equilibrium. Empirical confirm underpins the view that data contacts have a first-arrange impact on underpricing (Ljungqvist, 2007). Administrators can impact either the IPO offer cost or the planning and terms of their investment opportunity awards, there ought to be a positive connection between IPO option gives and underpricing. We discover no confirmation of such a connection. Our outcomes balance forcefully with the developing writing on administrative self-managing at investor cost (Lowry, 2007). It shows that initial public offerings (IPOs) of common stocks are systematically priced at a discount to their subsequent initial trading price. The large underpricing magnitude in the Chinese IPO market has attracted much attention (YU, 2006). Regardless of whether IPOs reviewed by different FICO score organizations, have a similar degree of under valuing. The factual investigation appeared, that there is no huge contrast in under evaluating, the extent that diverse
organizations reviewed by the distinctive FICO score offices are concerned (Banerjee, 2014). Underpricing is an open-door cost to a firm going public. IPO underpricing is resolved generally a need to repay financial specialists for unfavorable determination hazard, it may expect that development in control would prompt less underpricing (Ritter, 2011).

On the basis of sample collection, the sample consists of different articles from 2002 – 2018. The objective of our study is to find out whether the IPO is underpricing or overpricing. For this we collected secondary data. On the basis of that we did the paper analysis. The investigation finds that IPOs in India are under-priced in light of their execution on the main exchanging day. Both of these investigations found that underpricing is critical at the point when registered utilizing offer-to-open measure. This paper considers these two irregularities in the Indian setting by taking an example of 464 IPOs that have gone to the market amid 2001–2011. In concentrate the posting day execution, four distinct costs-opening, high, low and shutting on the principal exchanging day are utilized (Hawaldar, 2018). The focal point of this examination lays not on IPO underpricing in essence, but instead on the cross-sectional contrast in the degree of IPO underpricing in various nations. We recommend that distinctions in institutional situations are essential driving factors. The finding from this paper it is solid and strong proof that IPO firms from nations with higher monetary opportunity, particularly higher money related flexibility, have fundamentally less genuine IPO underpricing issues (Chen, 2017). In this investigation, endeavor to repeat three examinations that inspect how top administration and load up level qualities affect IPO underpricing utilizing flagging theory. Past considers on IPO underpricing have deliberately reported the viability of signs that impact the measure of cash business people "leave on the table" amid the IPO process. Two remarkable late changes-Unprecedented access to data and an administrative change that future analysts ought to analyze with regards to IPO underpricing research (Park U. B., 2016). The anomalous post-IPO execution in the CEE markets. Accomplishing this point requested satisfying a couple of discrete assignments that prompt a few commitments of this paper. Our explore discoveries bolster the time-shifting danger story as a clarification of the odd underperformance. Findings propose that the irregular negative returns come from tilt toward development stocks among the appearing organizations and steady decay of essentials (Zaremba, 2016).

DATA ANALYSIS AND INTERPRETATION

The articles are categorized into four areas like articles concerning IPO underpricing, IPO overpricing, both underpricing and overpricing and nothing related to the topic. The articles are analyzed over years from 2002 to 2018. Out of 115 articles, 60% of them deal with IPO underpricing, 9% of them are related to IPO overpricing, 1% of them are dealing with both underpricing and overpricing and 30% of them are not related to IPO overpricing and underpricing. More than half of the articles (51%) are taken from 2006 to 2009. As majority of the articles are dealing with IPO underpricing more factors affecting the pricing have been identified in this area as shown in figure.

![Image of data analysis and interpretation](image)

All speculations of underpricing in light of asymmetric data share the expectation that underpricing is decidedly identified with the level of lopsided data. The underpricing wonder is determined even crosswise over various initial public offering mechanism. Investment bank strife theory, says that some speculation banks energize underpricing on the grounds that it is an advantage to them. This happens progressively when broker don't charge a sufficiently high endorsing expense. IPO’S in India are under-priced in light of their
execution on the principal exchanging day. Underpricing is noteworthy when figured utilizing offer to open quantify. IPO firms from nations with higher monetary flexibility higher budgetary opportunity have essentially less genuine IPO underpricing issue viable ramifications including underpricing primarily identified with free market activity. The extent of underpricing shifts starting with one nation then onto the next relies upon the qualities of the organizations opening up to the world. The backer and the financier understand that will enhance the offer cost to maximize their advantage.

CONCLUSION
The objective of our study is to find out whether the IPO is underpricing or overpricing. Out of the total articles analyze articles, 60% of them deal with IPO underpricing, 9 % of them are related to IPO overpricing, 1% of them are dealing with both underpricing and overpricing and 30% of them are not related to IPO overpricing and underpricing. As a result of the analysis IPO underpricing predominates overpricing in most of the articles. Large number of articles dealing with IPO pricing are analyzed and factors affecting IPO pricing are identified. All speculations of underpricing in light of asymmetric data share the expectation that underpricing is decidedly identified with the level of lopsided data. The underpricing wonder is determined even crosswise over various initial public offering mechanism. Investment bank strife theory, says that some speculation banks energize underpricing on the grounds that it is an advantage to them. This happens progressively when broker don't charge a sufficiently high endorsing expense. IPO's in India are underpriced in light of their execution on the principal exchanging day. Underpricing is noteworthy when figured utilizing offer to open quantify firms from nations with higher monetary flexibility higher budgetary opportunity have essentially less genuine IPO underpricing issue viable ramifications including underpricing primarily identified with free market activity.

REFERENCES


