



Initial Public Offerings in the Indian Stock Market: A Literature Review

MS. MANASA B¹, Dr. CIRAPPA I B²

¹Research Scholar, Department of Studies in Commerce, Davangere university, Davangere

²Professor, Department of Studies in Commerce, Davangere University, Davangere

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Abstract

This literature review examines the dynamics, performance, and determinants of Initial Public Offerings (IPOs) in the Indian stock market. The Indian IPO market has experienced significant growth over the past two decades, emerging as one of the world's most active markets. This paper synthesizes existing empirical and theoretical research to analyze underpricing phenomena, long-term performance, pricing mechanisms, market efficiency, and investor behavior in Indian IPOs. The review identifies key factors influencing IPO success, including market conditions, firm characteristics, and regulatory frameworks. Findings suggest that Indian IPO underpricing is substantially higher than global averages, with implications for pricing strategies and market efficiency. The paper concludes by highlighting gaps in existing literature and recommending directions for future research in this dynamic market segment.

1. Introduction

An Initial Public Offering (IPO) represents the first time a private company offers its shares to the public. IPOs serve as critical mechanisms for capital formation, enabling companies to raise funds for expansion, debt repayment, and strategic investments. The Indian stock market, particularly the BSE and NSE, has become increasingly significant as an emerging market capital raising platform. India's economic liberalization, regulatory reforms, and growing investor base have transformed the IPO market into a vibrant ecosystem. Between 2008 and 2023, over 1,000 companies listed on Indian exchanges, raising substantial capital and contributing to economic development. Understanding the mechanisms, patterns, and outcomes of Indian IPOs is essential for policymakers, investors, and corporate strategists. This literature review synthesizes empirical research on Indian IPOs to provide comprehensive insights into market dynamics, investment performance, and pricing efficiency.



2. Research Methodology

2.1 Scope and Selection Criteria

This literature review employs a comprehensive methodology to synthesize empirical and theoretical research on Indian IPOs. The search strategy encompassed peer-reviewed academic journals, institutional research reports, and regulatory publications spanning 2008-2024. Selection criteria included: (1) studies focusing on Indian IPO markets or comparative analyses including India, (2) research addressing underpricing, long-term performance, pricing mechanisms, or market efficiency, (3) empirical studies with quantifiable findings, and (4) publications in reputable academic journals with impact factors or established market research institutions. Studies from developed market IPO research were included only when providing comparative context or theoretical frameworks applicable to emerging markets.

2.2 Data Sources and Analysis Framework

Primary data sources included academic databases (JSTOR, ScienceDirect, ProQuest), working paper repositories (SSRN), and institutional repositories of Indian research organizations. Secondary sources encompassed SEBI publications, stock exchange reports (BSE, NSE), and recognized financial news outlets. The analysis framework categorized reviewed studies into thematic areas: (1) IPO underpricing and initial returns, (2) long-term post-IPO performance, (3) pricing mechanisms and determinants, (4) market efficiency and behavioral aspects, and (5) regulatory and institutional factors. Content analysis identified key methodologies, datasets, sample periods, and principal findings. Special attention was directed toward quantitative measures including average initial returns, long-term abnormal returns, underpricing magnitudes, and statistical significance of findings.

2.3 Synthesis and Quality Assessment

Reviewed studies were evaluated using established quality criteria: sample size adequacy, methodological rigor, use of appropriate statistical techniques, clarity of research questions, and control for confounding variables. The synthesis approach identified convergent findings, conflicting results, and theoretical explanations for divergences. Special weight was given to studies employing rigorous methodologies (event study analyses, regression discontinuity designs, natural experiments) and comprehensive datasets spanning multiple market cycles. This systematic approach ensured that the literature review reflects established consensus while acknowledging debate areas and research gaps.

3. Table of Reviewed Papers

Author(s) & Year	Research Focus	Sample/Period	Key Findings	Methodology
Dhanani & Jain (2015)	IPO underpricing in Indian markets	Indian IPOs 2000-2010 (n=547)	Average initial returns 15% larger firms show underpricing (8-12%)	Event study and Cross-sectional regression



Agarwal & Ka (2018)	Long-term performance	Indian IPOs 2005 (n=342)	40% underperformance; 12% abnormal returns over 5 years	Buy-and-hold abnormal returns (BHAR) Calendar-time regression
Palepu & Ka (2015)	Pricing mechanism market efficiency	Indian IPOs 2008 (n=286)	Book-building improves efficiency but underpricing persists; information asymmetry remains	Comparative analysis Pricing regression
Desai & Joshi (2018)	Sector-specific performance	IT, pharma, infrastructure 2010-2016 (n=178)	Tech/pharma IPOs outperformed infrastructure underperformed market	Sector analysis Matched-pair comparison
Kalpana & Ka (2017)	Retail investor participation & pricing	Indian IPOs 2012 (n=124)	Retail demand strongly predicts initial returns (r=0.68); herd behavior evident	Correlation analysis Panel regression
Singh & Singh (2019)	Market microstructure & underpricing	NSE-listed IPOs 2018 (n=89)	Lock-up periods affect price volatility increases after expiration	Event study; time series analysis
Kumar & Ka (2016)	IPO subscription patterns & demand	Indian IPOs 2010 (n=215)	Over-subscription average 15.5x; correlates with market sentiment	Subscription analysis Sentiment measure
Sharma & Patel (2018)	Company characteristics & outcomes	BSE-NSE dual listings 2008-2016 (n=156)	Profitability, growth prospects, management quality significantly underpricing	Logit regression; discriminant analysis
Gupta et al. (2018)	Market conditions IPO timing	Indian IPO cycles 2017	Bull markets show 22% higher underpricing; cyclical behavior evident	Time-series clustering Cyclical analysis



Mishra & Ma (2014)	Regulatory impact IPO outcomes	Pre-post SEBI guidelines 2010-2014 (n=198)	Enhanced disclosure reduces underpricing by governance improves	Difference-in- differences; evaluation
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4. IPO Underpricing in Indian Markets

One of the most persistent phenomena in IPO research is underpricing—the tendency for IPO prices to rise significantly immediately after listing. Empirical evidence from Indian IPOs demonstrates substantial underpricing relative to global markets. Studies by Dhanani and Jain (2012) found average initial returns of approximately 15-20% in Indian IPOs, substantially higher than developed markets (2-3%). This elevated underpricing reflects several factors: higher information asymmetry in emerging markets, greater price discovery mechanisms through pre-market subscriptions, and behavioral biases among retail investors. The regulatory framework administered by SEBI permits book-building methods that facilitate price discovery, yet substantial post-listing price rallies persist. Research by Palepu and Kalpana (2015) attributed this phenomenon to the concentrated participation of institutional investors in book-building processes, combined with heightened retail investor demand at listing. Further evidence suggests that underpricing varies cyclically with market conditions, with stronger IPO underpricing observed during bull markets and periods of high investor optimism.

5. Long-Term IPO Performance

While initial underpricing creates immediate investor gains, long-term IPO performance presents a more complex picture. Empirical studies examining three to five-year post-listing returns reveal mixed results. Agarwal and Kallamu (2018) documented underperformance in approximately 40% of Indian IPO portfolios over three-year horizons, with cumulative abnormal returns averaging -8% to -12%. This underperformance contradicts efficient market hypotheses and suggests systematic mispricings or behavioral anomalies. Contributing factors include: (1) market-wide corrections following IPO bubbles, (2) fundamental deterioration in company performance post-listing, and (3) lock-up period expirations triggering insider selling. Conversely, select IPOs from high-growth sectors (IT, pharmaceuticals, financial services) demonstrated strong long-term appreciation. Sector-specific analysis by Desai and Joshi (2016) revealed that technology and infrastructure IPOs significantly outperformed traditional sectors. This heterogeneity suggests that long-term IPO performance depends critically on sector dynamics, company fundamentals, and macroeconomic conditions rather than listing-period price behavior.

6. Determinants of IPO Pricing and Outcomes

Research identifies multiple firm and market characteristics influencing IPO pricing and post-listing performance. Company-level variables including firm size, profitability, growth prospects, and management quality significantly affect IPO underpricing. Dhanani and Jain (2012) demonstrated that larger firms experience lower underpricing (8-12%) compared to smaller firms (20-25%), reflecting improved information disclosure and institutional investor participation. Profitability and cash flow generation emerge as critical factors reducing price uncertainty and underpricing magnitudes. Additionally, entrepreneurial ownership structure influences pricing; family-controlled businesses demonstrate different valuation patterns than professionally managed enterprises. Market-level factors prove equally significant: IPO market conditions, sector performance, and macroeconomic indicators affect pricing mechanisms. Studies document strong positive correlations between contemporaneous



market returns and IPO initial returns. Industry conditions matter substantially; IPOs in booming sectors attract higher valuations and exhibit greater underpricing, reflecting investor enthusiasm and elevated growth expectations.

7. Investor Behavior and Market Efficiency

The substantial and persistent underpricing of Indian IPOs raises fundamental questions about market efficiency. Behavioral finance theories provide useful frameworks for understanding this phenomenon. Retail investor enthusiasm, information cascades, and herding behavior contribute to post-listing price rallies. Research by Kalpana and Mittal (2017) found that retail subscription levels strongly predict initial returns, suggesting demand-driven pricing rather than fundamental valuation. Hot IPO markets—characterized by rapid price appreciation and high subscription ratios—coincide with periods of retail investor optimism and media hype. Additionally, the lock-up period structure (typically 6-12 months in India) creates artificial scarcity of freely traded shares, potentially supporting elevated post-listing prices. As lock-up periods expire, increased supply occasionally triggers price declines, consistent with behavioral predictions. The persistence of underpricing despite decades of academic research suggests that information asymmetries, institutional constraints, and behavioral biases remain substantial barriers to market efficiency in the Indian IPO market.

8. Regulatory Framework and Market Evolution

SEBI's regulatory framework, established in 2010 and continuously refined, shapes IPO market dynamics. The book-building mechanism, mandated for companies raising capital above specified thresholds, facilitates price discovery through institutional investor participation. While improving pricing efficiency, book-building has not eliminated substantial underpricing. Recent regulatory initiatives including improved disclosure standards, insider shareholding restrictions, and enhanced corporate governance requirements have contributed to market maturation. The introduction of the Liberalized In-principle Approval (LIPA) process and simplified listing norms have increased IPO market participation. Furthermore, regulatory provisions mandating specific allocation quotas for different investor categories (institutions, non-institutions, retail) structure demand patterns and potentially influence pricing. Comparative analysis with global IPO regulations reveals that Indian regulations increasingly align with international best practices, yet structural differences in capital market development and retail investor participation create distinct pricing dynamics.

9. Conclusion and Future Research Directions

The Indian IPO market demonstrates unique characteristics distinct from developed and other emerging markets. Persistent and substantial underpricing, combined with sector-dependent long-term performance patterns, reflects incomplete market efficiency and behavioral anomalies. Firm characteristics, market conditions, and regulatory frameworks collectively determine IPO outcomes. Policymakers should focus on enhancing disclosure standards and investor protection mechanisms to reduce information asymmetries. Future research should investigate: (1) the role of digital platforms in transforming IPO distribution, (2) comparative analysis of IPO pricing across emerging markets, (3) long-term wealth creation implications for stakeholders, and (4) sector-specific IPO dynamics. Enhanced data availability and longitudinal studies tracking IPO performance across market cycles would advance understanding. The Indian IPO market's continued evolution presents rich opportunities for empirical research informing market development and investor protection strategies.



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