SYNOPSIS

Since liberalisation, the Indian capital markets have witnessed an enormous growth in the number of firms tapping the market and the amount of money being raised. The debt market in India is not well developed and it has now, easy for risky firms to raise money in the equity market. This has lead to a boom in the equity market and hence the Initial Public Offerings.

THE INITIAL PUBLIC OFFERINGS (IPO's) are the first time offerings of the equity shares of a firm (new firm / existing) to the investing public. One of the world wide phenomenon about IPOs is underpricing which is in fact disadvantageous for the firms issuing IPOs. Underpricing of IPO's is a much studied phenomenon observed in financial markets throughout the world. It is the resultant of various factors which may not be mutually exclusive. Subscription levels for an IPO is the measure of the demand which is caused by the amount of perceived levels of underpricing. This study concentrates on identifying and measuring the variables which act as proxies for the generation of the demand and in the process to model the subscription levels. This is an exploratory research study.

The proxies for the demand are identified by interacting with the investors and these demand generating variables are classified into fundamental variables, signalling variables, market variables and reputational variables.
The data set comprised of 366 IPOs tapping the market from November 1992 to November 1994. Since this was the time period when major regulatory changes were made, an effort has been done to capture subscription level related implications.

The data set comprised of both par and premium value IPOs, in order to study them separately as well as together.

Methodologies adapted are Correlations and Regressions. Correlation was used to study relationships between independent variables, and between dependent and independent variables. Regression was carried out to find the variables relevant and significant in explaining the subscription levels. This, in the process has also been used to fit a linear regression model.

The empirical results indicate that for risky IPOs, investors look into relevant signalling and reputational variables while applying when compared to less risky (premium) IPOs. This study can be utilised by Lead managers of IPOs while pricing the issue which is dependant on the demand. Investors can also use this model to approximately predict the subscription levels for an IPO, upon which their subscription decision can be determined for the initial public offerings.