

INITIAL PUBLIC OFFERINGS UNDERPRICING AND A STUDY ON THE SHORT RUN PRICE PERFORMANCE OF BOOKBUILT IPOs IN INDIA

ABSTRACT

Issuing of shares through book building process leads to efficient price discovery. This study attempts to examine how the initial public offerings (IPO) issued through book building fare in short-run. The study examines the first day returns of 288 book-built IPOs in India for a 7 year period (2004-2010). Based on this set of observations this study builds a comprehensive model of the short term price performance of the new offerings. Results indicate that the IPOs are underpriced in India by 21.73 %. Oversubscription and market volatility was found to be the major factors influencing underpricing. The results imply that the investors over react to the market. The presence of deliberate underpricing by the underwriters or the issuing firm to decrease block holdings by the shareholders is also evident. Finally, results illustrate a trend towards a less aggressive underpricing.

Keywords: IPOs, Underpricing, Book-building