

INVESTORS' PERCEPTION TOWARDS THE INITIAL PUBLIC OFFERING OF STARTUP COMPANIES

Bharathi B*, Gopala K R**

Abstract *The study examines the level of awareness among the investors about startup IPOs and analyses the relationship between independent variables such as size and purpose of IPO, company profile, financial performance, quality management and sector performance and investment decision in startup IPO which is the dependent variable. The research is conducted majorly using primary data collected from 360 two respondents across the state of Karnataka. The data so collected is analysed using the SPSS software. The statistical tools like multiple regression analysis and correlation analysis are used to analyse the data and hypothesis are tested using ANOVA. Five hypotheses were framed and tested to verify the effect of five independent variables on dependent variable. The outcome of the study reveals that, majority of the investors have awareness about the startup IPOs and size and purpose of IPO, company profile, financial performance, quality management and sector performance have positive relationship with dependent variable and these factors have highly considerable impact on investment decision in startup IPO in Indian stock market. This study concludes that 96.1% of the investment decision in startup IPO is influenced by the sector performance, financial performance, size & purpose of IPO, quality management and company profile.*

Keywords: *Investors Perception, Initial Public Offering, Startups, Investment Decision*

INTRODUCTION

Finance is the primary requirement for any business organisation, when company is initially formed that might be funded by the limited number of members as the capital requirement is less. As the company increases its level of operations the quantum of capital required will be more and to fulfill that requirement, the company will raise its capital through public issue. Public issue can be of the two types viz. Initial Public Offering (IPO) and Further Public Offering (FPO). IPO means the process through which a privately owned entity will become public entity by selling its shares to the general public for the first time. FPO is the process through which an existing listed company subsequently issues its stocks to the general public.

India has the third largest startup eco system in the world with the 41,317 startup companies identified by the department for promotion of industry and internal trade and India has taken startup India initiative to develop the startup

eco system in India. With all these support and initiatives many new entrepreneurs who are having the intellectual investment are budding and converting their ideas into profitable business hence, many of the startup companies are coming up. Presently in India, 590 plus districts have at least one recognised startup in that district and 4,70,000 jobs are created from 39,000 startup companies in India. Once the capability of such businesses is proved they enter into the primary market to get their capital funded by the large number of investors.

Startup companies will face several issues and challenges while they are going for IPO. The startup companies may have great growth potential but they limited past financial performance data. This will negatively affect the investors' sentiment. If the market conditions are not good startup companies may face the challenges in getting the investors' demand. Unstable market conditions may lead to aversion from the investors. After issue, startups face the challenge of meeting market expectations. They need to deliver on their

* Assistant Professor of Commerce, Srimad Andavan Arts & Science College, Trichy Affiliated to Bharathidasan University, Tamil Nadu, India. Email: bharathineyveli@gmail.com

** Research Scholar, Srimad Andavan Arts & Science College, Trichy Affiliated to Bharathidasan University, Tamil Nadu, India. Email: gopalrajkr@gmail.com

growth projections, demonstrate profitability and maintain a positive growth rate to gain investor confidence and support the stock's performance. Consistent performance and future projections helps to gain the investors' confidence in stock market. Hence, it is important for startups to carefully assess these challenges, seek professional advice and ensure they have a solid business foundation and growth strategy in place before proceeding with an IPO.

With the increased number of startups in India, IPO in stock market are also drastically increasing. At the same time, after the COVID pandemic, the Indian stock market investors' base is growing rapidly and the country's investors' count has crossed 50 million. The increase in the number of investors is a welcoming move and seen great investors participation in IPOs. Investment in IPO is considered to be risky investment because the non-availability of market behaviour information as the company is going to market for the first time through IPO. Taking investment decision in startup IPOs under these volatile environments becomes even more difficult for the investors as there will be non/limited availability of the information regarding the financial performance of the startup company as their data disclosure requirement is less. Securities Exchange Board of India (SEBI) has laid down many rules and guidelines to protect the interest of the investors under these volatile market situations. These SEBI guidelines includes eligibility requirements which shall be fulfilled by the company before going for IPO and general guidelines which shall be followed by the company during the course of IPO. SEBI has issued eligibility criteria for companies going to launch an IPO. These criteria include minimum net worth requirements, track record of profitability, minimum issue size and compliance with various regulatory norms. The IPO issuing company shall publish the prospectus containing the complete information about the company for enabling the investors to take rational investment decisions.

In the process of IPO, the price and price band determination plays pivotal role as the valuation of the IPO decides the sustainability of that company in the market. Nowadays, many startup IPOs are overvalued and many of the retail investors without having much knowledge about the market and company are investing in that IPOs, this is resulting in erosion of the investors capital. Hence, it becomes very essential to understand the level of awareness among the investors about startup IPOs and the perception of the investors regarding the various factors which influences their investment decision in startup companies.

REVIEW OF LITERATURE

Mousa et al. (2019) in their research work focused on to investigate the role of owners' reputation, company industry, marketing efforts and IPO timing in investor's decision making in Syrian IPO market. To analyse the impact of these factors on investors investment decision in IPO, the required data has been collected from the 270 respondents and one sample *t* test is used to analyse the data and to test the hypothesis. The research results shows that marketing efforts, owners' reputation and IPO timing are significantly impact the investors' investment decision in IPOs. The company industry is not statistically significant while the investors taking their investment decision. The Serian Companies can concentrate on these variables to improve the quality of their IPOs.

Mehmood et al. (2021) in their study they have examined the effect of oversubscription, pricing mechanism, political stability, financial leverage, risk of IPO and control of corruption on the investors' post issue behaviour. For the purpose of study used the IPO first day price range from January 2000 to December 2018 in the Pakistan Stock Market. They have considered 39 IPOs for the study. Stepwise regression and quantile regression, ordinary least square regression and robust regression tools are used to analyse the data. The study identified that oversubscription had a positive association with the explaining the IPOs' price range whereas the financial leverage, pricing mechanism, political stability, financial leverage and risk of IPO were have negative impact on the same. It is concluded in the study that price determining mechanism and over subscription are significantly influencing the varied opinions, which thereafter influences the post issue behaviour of investors.

Gnawali and Niroula (2021) has conducted a research to analyse the attitudes of investors towards IPOs of Nepal. The study attempted to measure the impact of company performance, quality management, company sector, company goodwill and market information on Investment decision in IPO. The data has been collected from the 290 respondents and it is analysed using Correlation and regression analysis techniques. The study shows that company performance, quality management, company sector, company goodwill and market information are positively correlated with investment decision in IPOs. The study further reveals that 69.8% of the investors investment decision is caused by these five variables. About 69.8% of the investors take their investment decisions by considering these five variables.

Vasa and Bhayani (2021) has carried out the research to find out the investors' awareness level about IPOs and to examine the confidence level of investors and their investment preference while money investing. The data has been collected from 95 respondents and percentage analysis is used to analyse and interpret the data. The study reveals that 43% of the investors consider company performance, 34% of investors consider sector performance and 12% of investors consider premium amount while taking their investment decision in IPO. Nearly 11% of the investors consider promoters as their key for investment decision. Newspaper, television and friends advices are considered while taking the investment decision IPO. Around 53% of investors invest for listing day gain and 47% invest for IPO for long term gains.

Kumar and Balamurugan (2022) in their empirical study, they examines the investment criterion to invest in IPOs and to examine the factors inducing retail investment decision of investors towards IPOs from the behavioural perspective. They have used the questionnaire to collect the data from 724 respondents to justify their findings. SPSS software is used to analyse the data and statistical tools like ANOVA, Factor Analysis are used to draw valid inferences and conclusions. The study reveals that the retails investors' investment decision in IPO is highly influenced by equity participation by financial institutions, quota of number of shares allotted to retail investors' category in IPO and foreign institutional investors and followed by price band of an IPO. The study further reveals that most of the investors' investment decision is based on market attractiveness and corporate image of IPO issuing company.

Kandel (2022) attempted to study and investigate the factors that affect the investors' perception towards IPO and to examine the investors' perception towards of IPO. The study further aims to study the investors' interest towards book building of IPOs in Khairahani Municipality, Chitwan Nepal. For the purpose of study seven independent variables namely company performance, background of promoters, legal policy, company sector, allotment procedures, market information and price mechanism and one dependent variable, that is, perception on IPO. The required data to measure the perception of investors has been collected from 110 respondents and data is analysed using statistical tools like frequency table, percentage and pie charts. The study reveals that all the seven dependent variables influences the investors' perception towards IPOs and the investors are positive about the allotment procedure and same can be continued. The study further argues that the investors are neutral about book building process of IPOs due to lack of awareness. Hence, SEBON should take initiatives to create awareness among the investors regarding the book building of IPOs.

OBJECTIVES AND HYPOTHESIS

Statement of the Problem

India has the third biggest ecosystem for startup in the globe and many startup companies are coming up every year. Once the capability of such startup businesses is proved, they enter into the primary market through IPOs to get their capital funded by the large number of investors. When the startup company enter in to the Stock market, it becomes very difficult for the investors to evaluate risk involved in the startup companies due to many reasons like non availability of the past market performance data, limited availability of the financial performance data, uncertainty about the future of the company etc. Hence, it is very important to know the investors perception towards the various factors that influences their investment decision in startup IPOs.

Research Objectives

- To identify the level of awareness among individual investors about the startup IPOs.
- To know the perception of investors towards the factors that influence the investment in startup IPOs.

Hypothesis

H₁: There is a positive relationship between size and purpose of IPO and investment decision in startup IPO.

H₂: There is a positive relationship between company profile and investment decision in startup IPO.

H₃: There is a positive relationship between financial performance of the company and investment decision in startup IPO.

H₄: There is a positive relationship between quality management and investment decision in startup IPO.

H₅: There is a positive relationship between sector performance and investment decision in startup IPO.

Conceptual Framework

To identify the aspects that influences the investment decision in startup IPO, the researcher has identified five independent variables viz "Size & Purpose of IPO", "Company Profile", "Financial Performance", "Quality Management" and "Sector Performance" and one dependent variable i.e. "Investment Decision in Startup IPO". Independent variables are described using Twenty five opinion statements.

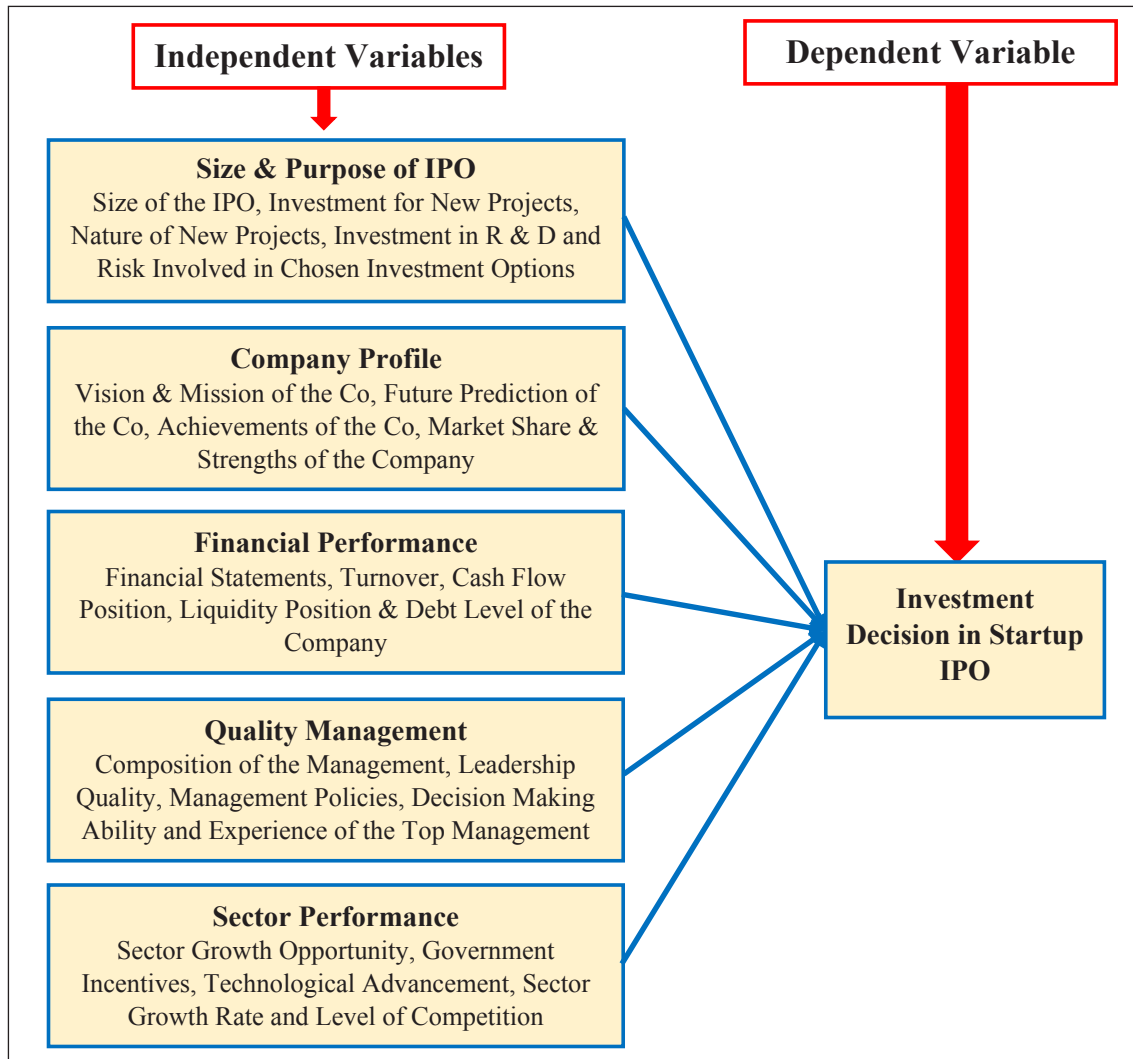


Fig. 1: Conceptual Framework

RESEARCH METHODOLOGY

Data Source and Tool Used

The research has been carried out from both primary data and secondary data. A structured questionnaire with 5-point Likert scale has been prepared for collection of the primary data and the secondary data has been collected from various sources like websites and journals.

A close ended questionnaire has been used for collection of data from the individual investors about their awareness and perception towards the 5 opinion statements which describes the five independent variables which are considered while taking the investment decision in startup IPOs.

Sampling Method

Convenience sampling method was adopted to select the sample from the retail individual investors. From the approximate population of 4.5 million investors in Karnataka, sample size selected for the research is limited to 362 respondents only.

Method of Analysis of Data

Multiple regression analysis and correlation analysis tests are used to do the analysis of the data collected and hypothesis are tested using ANOVA.

DATA ANALYSIS

Table 1: Demographic Profile of the Respondents

Profile		Frequency	Percentage
Gender	Male	296	81.8
	Female	66	18.2
	Total	362	100.0
Occupation	Govt Employed	259	71.5
	Private Employed	43	11.9
	Self Employed	18	5.0
	Not Employed	30	8.3
	Other	12	3.3
	Total	362	100.0
Income	Less than 3,00,000	72	19.9
	3,00,000 to 5,00,000	25	6.9
	5,00,000 to 10,00,000	180	49.7
	Above 10,00,000	85	23.5
	Total	362	100.0
Stock market investment experience	Upto 2 years	242	66.9
	2 to 5 years	78	21.5
	More than 5 years	42	11.6
	Total	362	100.0
Frequency of Investment	Regularly	98	27.1
	Occasionally	264	72.9
	Total	362	100.0
Awareness about Startup IPOs	Yes	344	95.0
	No	18	5.0
	Total	362	100.0
Why do you invest in Startup IPOs	Listing Gain	133	36.7
	Short Term Gain	109	30.1
	Long Term Gain	120	33.1
	Total	362	100.0
Level of risk involved in investing in Startup IPOs	Low Risk	19	5.2
	Moderate Risk	115	31.8
	High Risk	198	54.7
	Not Aware of the Risk	30	8.3
	Total	362	100.0

Source: Primary data.

Above table shows that, 81.8% are male respondents and 18.2% are female respondents. About 71.5% of the respondents are government employees and 11.9% of the respondents are private company employees. Similarly, 5% of the employees are self-employed. Nearly 49.7% of the respondents' falls in the income group between 5,00,000 and 10,00,000 and 23.5% of the respondents have income more than 10,00,000 and 19.9% of the respondents have the income the less than 3,00,000. Around 66.9% of the respondents have less than 2 years of stock market

experience and 21.5% of the respondents have 2-5 years of experience. About 72.9% of the respondents occasionally invest in the market and remaining 27.1% respondents invests regularly in the market. 95% of the respondents are aware of the startup IPOs. Hence, it is opined that investors are aware of the startup IPOs. Nearly 36.7% of the respondents invest in IPO for listing day gain, 30.1% invests for short term gain and 33.1% of the investors invest for long term gain. Around 54.7% of the respondents feel investment in startup IPO highly risky and 31.8% feel moderate risk in startup IPO investment.

Table 2: Correlation Analysis

Variables		Investment Decision in Startup IPO
Size & Purpose of IPO	Pearson Correlation.	.938**
	Sig. (2-tailed)	.000
	N	362
Company Profile	Pearson Correlation.	.937**
	Sig. (2-tailed)	.000
	N	362
Financial Performance	Pearson Correlation.	.935**
	Sig. (2-tailed)	.000
	N	362
Quality Management	Pearson Correlation.	.942**
	Sig. (2-tailed)	.000
	N	362
Sector Performance	Pearson Correlation.	.956**
	Sig. (2-tailed)	.000
	N	362

**Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data.

The above table shows that, the coefficient of Pearson correlation between size and purpose of IPO, company profile, financial performance, quality management and sector performance and investment decision in startup IPO is 0.938, 0.937, 0.935, 0.942 and 0.956, respectively. With the above values it can be understood that the five variables are correlated positively and correlation is there between size and purpose of IPO, company profile, financial performance, quality management, sector performance and investment decision in startup IPO. These correlations are significant at significance level of 1%.

Regression Analysis

Regression test is used for the analysis and interpretation the data collected which shows the nature of relationship exists between the dependent and independent variables

and helps in making the necessary predictions. Impact of the independent variables (sector performance, financial performance, size and purpose of IPO, quality management and company profile) on investment decision in startup IPO is calculated using Multiple Regression test.

Statistically the equation of regression can be expressed as follows

$$\hat{Y} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

Where,

\hat{Y} = Investment Decision Startup IPO (Dependent Variable)

α = Constant

X_1 = Sector Performance

X_2 = Financial Performance

X_3 = Size & Purpose of IPO

X_4 = Quality Management

X_5 = Company Profile

$\beta_1, \beta_2, \beta_3, \beta_4$ & β_5 = Regression coefficients of Five Factors

e_i = Error Item

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980 ^a	.961	.960	.16523

a. Predictors: (Constant), Sector Performance, Financial Performance, Size & Purpose of IPO, Quality Management, Company Profile.

The above summary depicts that, the R Square is also termed

as coefficient of determination that explains how much of total variance in the decision startup IPO investment that can be caused by the independent variables. The R Square value of 0.961 in model summary indicates that, 96.1% of independent variables (sector performance, financial performance, size and purpose of IPO, quality management and company profile) are contributes for the investment decision in startup IPO. However rest 3.9% is still not explained, which may be caused by some other factors. Table 3 also specifies the estimate of standard error 0.16523 which illustrates that the variation in the detected value of the decision of investment in startup IPO from the line of regression is 0.16523 units/points.

Table 4: ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	239.300	5	47.860	1.753	.000 ^a
	Residual	9.719	356	.027		
	Total	249.019	361			

a. Predictors: (Constant), Sector Performance, Financial Performance, Size & Purpose of IPO, Quality Management, Company Profile.
b. Dependent Variable: Investment Decision Startup IPO.

As per the ANOVA test conducted using the data, the arrived p value is 0.000 that is lesser than the alpha value 0.01. Hence, the model can be the decent predictor of the independent and dependent variables. Therefore, the variables (sector performance, financial performance, size and purpose of IPO, quality management and company profile) are significant in explaining the dependent variable, that is, investment decision in startup IPO.

Table 5: Regression Coefficients^a Analysis

Model		Un Standardised Coefficients		Standardised Coefficients	t	Sig.
		B	Standard Error	Beta		
1	(Constant)	.519	.042		12.242	.000
	Size & Purpose of IPO	.282	.028	.293	10.052	.000
	Company Profile	.057	.028	.069	2.049	.041
	Financial Performance	.154	.024	.188	6.399	.000
	Quality Management	.245	.024	.305	10.232	.000
	Sector Performance	.128	.031	.165	4.090	.000

Dependent Variable: Investment Decision in Startup IPO.

On the basis of the above data the below model is developed for analysis.

$$\hat{Y} = + 0.128X_1 + 0.154X_2 + 0.282X_3 + 0.245X_4 + 0.057X_5$$

In regression analysis, beta coefficients clarify the importance of independent variables while deciding the investors' decision in startup IPO. The results presented in the regression coefficient analysis table shows that size and purpose of IPO ($\beta_3 = 0.282$, p value = 0.000), has higher weightage for decision of investment in startup IPO, followed by quality management ($\beta_4 = 0.245$, p value = 0.000), financial performance ($\beta_2 = 0.154$, p value = 0.000), sector performance ($\beta_1 = 0.128$, p value = 0.000) and company profile ($\beta_5 = 0.057$, p value = 0.041). The result depicts that, one unit increase in size and purpose of IPO can lead 0.282 unit up in the decision of investment in startup IPO. Similarly, 0.245 point upward movement in decision of investment in startup IPO can be caused by the 01 unit raise in quality management, 01 unit raise in financial performance can result in 0.154 unit raise in dependent variable, one unit increase in sector performance can lead 0.128 unit up in dependent variable and one unit up in company profile can lead 0.057 unit increase in dependent variable that is investment in startup IPO, if other variables remains constant.

With the above statistics and discussion it is concluded that, sector performance, financial performance, size and purpose of IPO, quality management and company profile factors are significant for decision of startup IPO in investment. Thus, the multiple regression analysis result accepts the alternative hypotheses and the significant and positive relationship exist between dependent variables and independent variable.

RESULTS AND DISCUSSION

Table 6: Testing of Hypotheses

No.	Alternative Hypothesis	Findings	Status
H ₁	There is a positive relationship between size & purpose of IPO and Investment Decision in startup IPO.	0.000 < 0.01	Accepted
H ₂	There is a positive relationship between Company Profile and Investment Decision in startup IPO.	0.000 < 0.01	Accepted
H ₃	There is a positive relationship between Financial Performance of the Company and Investment Decision in startup IPO.	0.000 < 0.01	Accepted

No.	Alternative Hypothesis	Findings	Status
H ₄	There is a positive relationship between Quality Management and Investment Decision in startup IPO.	0.000 < 0.01	Accepted
H ₅	There is a positive relationship between Sector Performance and Investment Decision in startup IPO.	0.000 < 0.01	Accepted

The above Table 6 shows that, positive relationship is exists between sector performance, financial performance, size and purpose of IPO, quality management and company profile and decision of investment in startup IPO. At 1% significance level the correlations between each independent and dependent variables are significant. All the hypothesis are accepted as p-value of each variable is less than the alpha value each variable, that is, 0.00 < 0.01.

CONCLUSION

The above study is carried out to understand the investors' perception towards the IPO of startup companies. Five hypotheses were framed and tested to verify the effect of five factors or variables (sector performance, financial performance, size and purpose of IPO, quality management and company profile) on investors' investment decision in startup IPO. Data collected from the sample is used to test the all five hypothesis and significance value is drawn to check the level of significance of the model. For all five independent variables and one dependent variable the Pearson correlation coefficient has been calculated, which exhibits that all five independent variables (sector performance, financial performance, size and purpose of IPO, quality management and company profile) are positively correlated with the dependent variable (investment decision in startup IPO) at 1% level of significance. The R Square value is 0.961 which explains that 96.1% of variation in the investment decision in startup IPO can be demonstrated by the five independent variables. Many researchers have different opinion on investors' perception towards the investment decision in startup IPOs. Some researchers agrees that, IPOs are risk free equity investment avenues and some researchers says that the risk perception of the investors is influenced by many factors. In this regard, this study clearly states that the size and purpose of IPO and quality management are the important aspects which majorly influence the investors' perception towards the investment in startup IPOs. Sector performance, financial performance and company profile also significantly influences the investors' perception towards the startup IPOs. This study concludes that 96.1% of the investment decision in startup IPO is influenced by the

sector performance, financial performance, size and purpose of IPO, quality management and company profile.

Scope for the Future Study

This research limited to 362 respondents of Karnataka state and this study considered only five factors that influence the investors' investment decision in startup IPOs. Researchers can consider other factors that influences the investors' decision in startup IPOs for their future study and sample size also can be increased.

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