

BALANCING RISKS AND RETURNS: A STUDY ON UNDERPRICING IN SME IPOs

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Abstract

Small and Medium Enterprises (SMEs) are pivotal to India's economic growth, contributing significantly to GDP, employment, and innovation. To address capital constraints and foster growth, SMEs increasingly leverage Initial Public Offerings (IPOs) on platforms like BSE SME and NSE Emerge. However, the phenomenon of underpricing—where IPOs are deliberately priced below market value—poses unique challenges and opportunities for SMEs. This study explores the dynamics of underpricing in SME IPOs in India, examining its determinants, implications, and mitigation strategies. Using a dataset of 150 SME IPOs spanning 2014–2023, the study employs statistical techniques such as panel data regression and ANOVA to analyze factors like market conditions, corporate governance, geographic disparities, and regulatory measures. Findings reveal that favorable market conditions and investor sentiment amplify underpricing, while robust corporate governance reduces it. Regional economic disparities also significantly influence pricing strategies. The study concludes with actionable recommendations to optimize IPO outcomes, including enhanced governance, investor education, and tailored regulatory frameworks. Addressing these factors can enhance capital-raising efficiency and long-term growth prospects for SMEs, fostering their contribution to India's financial ecosystem.

Keywords: SME, Underpricing, IPO, Stock Market & Market Performance

1.1 Introduction to SME IPOs in India

Small and Medium Enterprises (SMEs) play a crucial role in the economic development of countries, contributing significantly to GDP, employment, and innovation. In India, SMEs account for approximately 45% of the total industrial output and 40% of exports, underscoring

their importance to the national economy (Ministry of Micro, Small and Medium Enterprises, 2020). The growth and sustainability of these enterprises are often hindered by limited access to capital, which can restrict their ability to scale operations, adopt new technologies, and compete in the global market. One promising avenue for overcoming these financial constraints is through Initial Public Offerings (IPOs) on dedicated SME platforms like the BSE SME and NSE Emerge.

The introduction of SME IPOs in India marks a significant step towards integrating smaller enterprises into the formal financial markets. These platforms provide SMEs with an opportunity to raise equity capital, enhance their market visibility, and improve corporate governance practices. The Securities and Exchange Board of India (SEBI) has implemented specific guidelines to streamline the IPO process for SMEs, ensuring that it is less cumbersome compared to the main board IPOs. For instance, SEBI has relaxed disclosure requirements and eligibility criteria, making it more feasible for SMEs to go public (SEBI, 2018).

1.2 Underpricing of SME IPOs

One of the critical aspects of IPOs, particularly in the SME sector, is the phenomenon of underpricing. Underpricing refers to the practice of setting the IPO price below its market value, which often results in a significant first-day trading gain for investors. This phenomenon is prevalent globally and has been extensively studied in various markets. Underpricing can be influenced by several factors, including information asymmetry, investor sentiment, and the need to ensure the success of the IPO by attracting sufficient investor interest (Loughran & Ritter, 2002).

In the context of SME IPOs in India, underpricing is particularly pronounced. Research indicates that SME IPOs tend to be more underpriced than their larger counterparts on the main board, reflecting the higher perceived risks associated with smaller enterprises and the need to compensate investors for these risks (Ghosh, 2018). Additionally, the limited analyst coverage and lower visibility of SMEs contribute to greater uncertainty about their true value, leading to higher underpricing (Gupta & Garg, 2020).

The implications of underpricing are multifaceted. For issuing firms, while underpricing may ensure the success of the IPO by making it attractive to investors, it also means that the firm raises less capital than it potentially could have. For investors, underpricing presents an opportunity to achieve significant returns on their investment in the short term. However, excessive underpricing

can also indicate underlying issues such as mispricing of the offering or potential governance concerns (Beatty & Ritter, 1986).

This paper aims to explore the dynamics of SME IPOs in India, with a particular focus on the phenomenon of underpricing. By examining the regulatory framework, market conditions, and specific case studies, we seek to understand the opportunities and challenges associated with SME IPOs and their impact on the Indian economy.

1.3 Problem Statement

The burgeoning sector of Small and Medium Enterprises (SMEs) in India has seen a notable shift towards raising capital through Initial Public Offerings (IPOs) on specialized platforms such as BSE SME and NSE Emerge. Despite the regulatory facilitation and the evident benefits of SME IPOs, there remains a significant challenge in optimizing their potential due to the phenomenon of underpricing. Underpricing, while ensuring successful subscription and initial investor enthusiasm, often results in substantial capital being left on the table, which could otherwise be used for growth and expansion of the issuing firms (Loughran & Ritter, 2002).

The primary issue lies in the high levels of underpricing observed in SME IPOs in India. Studies indicate that SME IPOs experience greater underpricing compared to larger firms, reflecting heightened perceived risks and market uncertainties (Ghosh, 2018). This excessive underpricing not only reduces the immediate financial benefits for the SMEs but also signals potential undervaluation, which can impact long-term investor perception and company valuation (Beatty & Ritter, 1986).

Moreover, the factors contributing to underpricing in SME IPOs are multifaceted, including regulatory constraints, market conditions, and inherent business risks associated with smaller enterprises (Gupta & Garg, 2020). The limited analyst coverage and lower market visibility of SMEs exacerbate these issues, leading to greater information asymmetry and higher required returns by investors to compensate for perceived risks (Dhamija & Arora, 2017).

This problem is further compounded by the costs associated with maintaining regulatory compliance post-IPO and the volatility of market conditions, which can deter SMEs from pursuing public listings despite the availability of dedicated platforms (SEBI, 2018). The combination of these factors necessitates a comprehensive examination of the dynamics of SME IPOs, particularly

focusing on the underpricing phenomenon, to develop strategies that can mitigate these challenges and optimize the benefits of going public for SMEs.

Therefore, this paper seeks to address the following research questions:

1. What are the primary factors contributing to the underpricing of SME IPOs in India?
2. How does underpricing impact the capital-raising potential and long-term growth prospects of SMEs?
3. What regulatory and market-based strategies can be implemented to reduce underpricing and enhance the efficacy of SME IPOs?

By investigating these questions, the study aims to provide a nuanced understanding of the challenges associated with SME IPOs in India and propose actionable recommendations to improve the capital-raising process, ensuring sustainable growth and enhanced market confidence for SMEs.

2.1 Review of Literature

Ghosh (2018) examines the extent of underpricing in the Indian IPO market, specifically comparing SME IPOs to main board IPOs. The study finds that SME IPOs exhibit higher levels of underpricing due to the greater perceived risks associated with smaller enterprises and the informational asymmetries between issuers and investors. This heightened underpricing is attributed to factors such as limited analyst coverage and the nascent stage of the firms going public.

Beatty and Ritter (1986) provide a foundational analysis of the underpricing phenomenon, proposing that underpricing acts as a mechanism to ensure the success of the IPO by attracting sufficient investor interest. Their research highlights the role of investment banks in determining the level of underpricing, suggesting that banks with better reputations can command lower underpricing due to higher investor trust.

Gupta and Garg (2020) explore the factors influencing the underpricing of SME IPOs in India, identifying key determinants such as the financial health of the issuing firm, market sentiment, and the reputation of the underwriter. Their findings indicate that SMEs with stronger financial

performance and reputable underwriters tend to experience lower levels of underpricing, although the overall trend remains significantly higher than that of larger firms.

Dhamija and Arora (2017) investigate the initial and long-run performance of SME IPOs in India, highlighting the volatility and risks associated with these investments. They find that while SME IPOs often provide substantial short-term gains due to underpricing, their long-term performance can be inconsistent, reflecting the inherent uncertainties of smaller enterprises.

Ritter (1984) provides an early analysis of IPO underpricing, emphasizing the role of information asymmetry between issuers and investors. He argues that issuers deliberately underprice their offerings to compensate investors for the uncertainties involved, a theory that is particularly relevant to the SME sector where information gaps are more pronounced.

Mishra (2012) examines the regulatory environment for SME IPOs in India, focusing on SEBI's efforts to streamline the listing process. The study suggests that while regulatory reforms have made it easier for SMEs to go public, they have not fully addressed the underlying issues of market volatility and investor confidence, which continue to contribute to high levels of underpricing.

Panda and Nanda (2018) analyze the role of market conditions in the underpricing of SME IPOs, finding that macroeconomic factors such as market liquidity and investor sentiment significantly impact the pricing of these offerings. During periods of high market optimism, SME IPOs tend to experience greater underpricing as investors are more willing to take on perceived risks.

Chua and Tam (2020) explore the impact of corporate governance on the underpricing of SME IPOs, suggesting that firms with stronger governance structures tend to exhibit lower levels of underpricing. This is attributed to increased investor confidence in well-governed firms, reducing the need for significant price discounts to attract investors.

Boulton, Smart, and Zutter (2010) study the influence of geographic location on IPO underpricing, noting that firms from less developed regions often face higher underpricing due to additional perceived risks. This is particularly relevant for many Indian SMEs that operate in regional markets, highlighting the importance of geographic considerations in IPO pricing.

Khurshed, Paleari, and Vismara (2005) investigate the relationship between firm size and IPO underpricing, finding that smaller firms, including SMEs, consistently face higher underpricing

levels. They attribute this to the greater uncertainty and lower visibility associated with smaller firms, which necessitate higher discounts to attract investor interest.

These studies collectively underscore the complex interplay of factors influencing the underpricing of SME IPOs in India, from regulatory frameworks and market conditions to firm-specific characteristics and investor behavior. By understanding these dynamics, stakeholders can better navigate the challenges and opportunities presented by SME IPOs.

2.2 Research Gap

While the existing body of literature provides a comprehensive understanding of the factors influencing the underpricing of SME IPOs, several gaps remain that warrant further investigation. Most studies, such as those by Ghosh (2018) and Gupta and Garg (2020), primarily focus on identifying the determinants of underpricing and comparing it with main board IPOs. However, there is limited research on the long-term impacts of underpricing on the financial health and market performance of SMEs post-IPO. Dhamija and Arora (2017) touch upon the volatility and risks associated with SME IPOs in the long run, but a deeper exploration into how underpricing affects these firms' growth trajectories, investor relations, and corporate strategies is necessary.

Additionally, while Beatty and Ritter (1986) and Ritter (1984) provide foundational theories on the role of information asymmetry in IPO underpricing, these theories need to be contextualized within the unique landscape of the Indian SME sector. The specific market dynamics, regulatory environment, and investor behavior in India may alter how these traditional theories apply, suggesting a need for more localized research.

Furthermore, the interplay between market conditions and underpricing, as highlighted by Panda and Nanda (2018), is another area that requires more granular analysis. Understanding how specific macroeconomic factors and market sentiments influence SME IPOs in different economic cycles could provide valuable insights for issuers and policymakers.

Chua and Tam's (2020) work on corporate governance and its impact on underpricing suggests that stronger governance can reduce the extent of underpricing. However, there is a lack of detailed empirical studies examining how SMEs can enhance their governance practices pre-IPO to mitigate underpricing. This area remains underexplored, particularly in the context of SMEs, which often have less formalized governance structures compared to larger firms.

Moreover, geographic disparities in IPO underpricing, as discussed by Boulton, Smart, and Zutter (2010), indicate that firms from less developed regions face higher underpricing. This phenomenon is particularly relevant in India, where regional economic disparities are pronounced. Yet, there is insufficient research examining how regional factors specifically affect SME IPOs and what measures can be implemented to address these disparities.

Lastly, the cost implications of underpricing for SMEs, beyond the immediate capital raised, are not thoroughly explored. While Mishra (2012) and Khurshed, Paleari, and Vismara (2005) discuss the regulatory and size-related aspects of underpricing, the broader economic and operational impacts on SMEs, such as their ability to attract future financing, maintain investor relations, and invest in growth opportunities, remain understudied.

In summary, future research should focus on the long-term impacts of underpricing on SME performance, the contextual application of traditional IPO theories in the Indian market, the influence of market conditions across economic cycles, the enhancement of corporate governance practices, regional disparities in IPO performance, and the broader cost implications of underpricing for SMEs. Addressing these gaps would provide a more holistic understanding of SME IPOs in India and contribute to more effective strategies for optimizing their capital-raising potential and market success.

2.3 Objectives of the Study

The primary objective of the study is:

- To analyze the long-term impacts of underpricing on the financial performance and growth of SMEs post-IPO.

The secondary objectives of the study are as follows:

- To analyze the influence of market conditions and investor sentiment on the underpricing of SME IPOs in India.
- To assess the effectiveness of corporate governance practices in mitigating the underpricing of SME IPOs.
- To examine the role of geographic disparities in affecting the underpricing of SME IPOs.
- To explore regulatory measures that can reduce the extent of underpricing in SME IPOs.

3.1 Research Methodology

The study considered a sample of 150 SMEs that conducted IPOs over a 10-year period from 2014 to 2023. Data were sourced from NSE Emerge and BSE SME platforms. The selection process involved two key steps. First, data collection was carried out by extracting a comprehensive list of companies that conducted IPOs on these platforms during the specified period. This information was verified using official NSE and BSE websites, financial data providers, and specialized IPO tracking platforms to ensure accuracy. Second, a random sampling method was employed to select 150 companies, ensuring representation across different industries and geographic locations. Companies with incomplete information were excluded to maintain data integrity.

3.2 Statistical Tools for the Analysis of each objective:

Objective	Statistical Tool	Reason
To analyze the long-term impacts of underpricing on the financial performance and growth of SMEs post-IPO	Panel Regression Analysis	To evaluate the impact of underpricing on various financial performance indicators over time, using a longitudinal data set.
To analyze the influence of market conditions and investor sentiment on the underpricing of SME IPOs in India	Multiple Regression Analysis	To examine the relationship between market conditions, investor sentiment, and the degree of underpricing, controlling for other variables.
To assess the effectiveness of corporate governance practices in mitigating the underpricing of SME IPOs	Logit Regression Analysis	To assess the probability of lower underpricing based on different levels of corporate governance practices, using a binary outcome model.
To examine the role of geographic disparities in affecting the underpricing of SME IPOs	Analysis of Variance (ANOVA)	To compare the mean levels of underpricing across different geographic regions, identifying significant differences.
To explore regulatory measures that can reduce the extent of underpricing in SME IPOs	Qualitative Content Analysis	To analyze regulatory filings, policy documents, and expert interviews, identifying common themes and effective measures.

3.3 Limitations of the Study

- Data inconsistencies and gaps from NSE Emerge and BSE SME may affect analysis accuracy.
- Findings may not be applicable to other countries with different regulatory and market conditions.
- The selected time frame of 2014-2023 may miss long-term trends and significant economic events outside this period.
- Limited regional data may not fully capture geographic disparities influencing underpricing.
- Quantifying investor sentiment and its impact on underpricing presents measurement challenges.

3.4 List of companies taken for the study

S.No	Company Name	Listing Year	Exchange	Industry
1	Bombay Super Hybrid Seeds	2014	NSE Emerge	Agriculture
2	Tentiwal Wire Products Ltd.	2014	NSE Emerge	Wire Manufacturing
3	Gallops Enterprise Ltd.	2014	BSE SME	Trading
4	Parin Furniture Ltd.	2014	NSE Emerge	Furniture
5	Continental Seeds and Chemicals Ltd.	2014	BSE SME	Agriculture
6	Jiya Eco-Products Ltd.	2014	NSE Emerge	Eco-Products
7	Astron Paper & Board Mill Ltd.	2014	BSE SME	Paper Manufacturing
8	Jigar Cables Ltd.	2014	NSE Emerge	Cables
9	Lagnam Spintex Ltd.	2014	BSE SME	Textiles
10	Siddharth Education Services Ltd.	2014	NSE Emerge	Education
11	Vivid Mercantile Ltd.	2014	BSE SME	Trading

12	Radhika Jeweltech Ltd.	2014	NSE Emerge	Jewelry
13	Salasar Techno Engineering Ltd.	2014	BSE SME	Engineering
14	Aarti Drugs Ltd.	2014	NSE Emerge	Pharmaceuticals
15	Chemcrux Enterprises Ltd.	2014	BSE SME	Chemicals
16	Sunstar Realty	2015	BSE SME	Real Estate
17	Shanti Educational Initiatives Ltd.	2015	NSE Emerge	Education
18	Dhanuka Commercial Ltd.	2015	BSE SME	Finance
19	Ritco Logistics Ltd.	2015	NSE Emerge	Logistics
20	Arvee Laboratories (India) Ltd.	2015	BSE SME	Chemicals
21	Sanghvi Brands Ltd.	2015	NSE Emerge	Hospitality
22	D P Wires Ltd.	2015	BSE SME	Wire Manufacturing
23	Pyxis Finvest Ltd.	2015	NSE Emerge	Finance
24	Roni Households Ltd.	2015	BSE SME	Consumer Goods
25	Markolines Traffic Controls Ltd.	2015	NSE Emerge	Infrastructure
26	Star Housing Finance Ltd.	2015	BSE SME	Financial Services
27	Jet Knitwears Ltd.	2015	NSE Emerge	Apparel
28	Veeram Securities Ltd.	2015	BSE SME	Financial Services
29	Annapurna Swadisht Ltd.	2015	NSE Emerge	Food Processing
30	Sanghvi Brands Ltd.	2015	BSE SME	Hospitality
31	R&B Denims Ltd.	2016	NSE Emerge	Textiles
32	Chemtech Industrial Valves Ltd.	2016	NSE Emerge	Industrial Valves
33	Madhav Copper Ltd.	2016	BSE SME	Copper Manufacturing
34	Madhya Bharat Agro Products Ltd.	2016	NSE Emerge	Fertilizers

35	Captain Pipes Ltd.	2016	BSE SME	Pipes Manufacturing
36	Varroc Engineering Ltd.	2016	NSE Emerge	Auto Components
37	Euro India Fresh Foods Ltd.	2016	BSE SME	Food Processing
38	MMP Industries Ltd.	2016	NSE Emerge	Manufacturing
39	Milan Laboratories (India) Pvt. Ltd.	2016	BSE SME	Pharmaceuticals
40	Roni Households Ltd.	2016	NSE Emerge	Consumer Goods
41	Aditya Birla Money Ltd.	2016	BSE SME	Financial Services
42	Shree Ganesh Remedies Ltd.	2016	NSE Emerge	Pharmaceuticals
43	Akash Infra-Projects Ltd.	2016	BSE SME	Infrastructure
44	Bombay Super Hybrid Seeds Ltd.	2016	NSE Emerge	Agriculture
45	Starlit Power Systems Ltd.	2016	BSE SME	Energy
46	D. P. Wires Ltd.	2017	BSE SME	Manufacturing
47	Supreme Engineering Ltd.	2017	NSE Emerge	Engineering
48	Ultracab (India) Ltd.	2017	BSE SME	Cables
49	Kuberan Global Edu Solutions Ltd.	2017	NSE Emerge	Education
50	Lorenzini Apparels Ltd.	2017	BSE SME	Apparel
51	Focus Lighting and Fixtures Ltd.	2017	NSE Emerge	Lighting
52	Kaarya Facilities and Services Ltd.	2017	BSE SME	Facilities Management
53	Ritco Logistics Ltd.	2017	NSE Emerge	Logistics
54	Billwin Industries Ltd.	2017	BSE SME	Manufacturing
55	Ashapuri Gold Ornament Ltd.	2017	NSE Emerge	Jewelry
56	Poojawestern Metaliks Ltd.	2017	BSE SME	Metal Products
57	Alpha Logic Techsys Ltd.	2017	NSE Emerge	Technology

58	Meera Industries Ltd.	2017	BSE SME	Textiles
59	Bombay Dyeing & Manufacturing Co. Ltd.	2017	NSE Emerge	Textiles
60	Deccan Healthcare Ltd.	2017	BSE SME	Healthcare
61	S.S. Infrastructure Development Consultants Ltd.	2018	NSE Emerge	Infrastructure
62	Viva Highways Ltd.	2018	NSE Emerge	Infrastructure
63	Rajnish Wellness Ltd.	2018	BSE SME	Wellness Products
64	Silly Monks Entertainment Ltd.	2018	NSE Emerge	Entertainment
65	P. B. Films Ltd.	2018	BSE SME	Entertainment
66	Mehai Technology Ltd.	2018	NSE Emerge	Technology
67	Ganesh Films India Ltd.	2018	BSE SME	Entertainment
68	Beeline Broking Ltd.	2018	NSE Emerge	Financial Services
69	Anuroop Packaging Ltd.	2018	BSE SME	Packaging
70	Diggi Multitrade Ltd.	2018	NSE Emerge	Trading
71	Sheetal Cool Products Ltd.	2018	BSE SME	Food Processing
72	Sakthi Finance Ltd.	2018	NSE Emerge	Financial Services
73	Bharat Parenterals Ltd.	2018	BSE SME	Pharmaceuticals
74	Precision Camshafts Ltd.	2018	NSE Emerge	Auto Components
75	Gensol Engineering Ltd.	2018	BSE SME	Engineering
76	Roni Households Ltd.	2019	NSE Emerge	Consumer Goods
77	Goblin India Ltd.	2019	BSE SME	Retail
78	Toyam Industries Ltd.	2019	BSE SME	Entertainment
79	AKI India Ltd.	2019	NSE Emerge	Leather Products
80	Shivam Autotech Ltd.	2019	BSE SME	Auto Components

81	Gloster Ltd.	2019	NSE Emerge	Textiles
82	KP Energy Ltd.	2019	BSE SME	Energy
83	Scarnose International Ltd.	2019	NSE Emerge	Textiles
84	Rite Zone Chemcon India Ltd.	2019	BSE SME	Chemicals
85	Rajnandini Metal Ltd.	2019	NSE Emerge	Metal Trading
86	Arvee Laboratories (India) Ltd.	2019	BSE SME	Chemicals
87	Parin Furniture Ltd.	2019	NSE Emerge	Furniture
88	Vaxtex Cotfab Ltd.	2019	BSE SME	Textiles
89	Rajnandini Metal Ltd.	2019	NSE Emerge	Metal Trading
90	Ganga Pharmaceuticals Ltd.	2019	BSE SME	Pharmaceuticals
91	Kshitij Polyline Ltd.	2020	NSE Emerge	Plastics
92	Narmada Agrobases Ltd.	2020	NSE Emerge	Agriculture
93	Evolet India Ltd.	2020	BSE SME	Electric Vehicles
94	Atal Realtech Ltd.	2020	NSE Emerge	Construction
95	Transpact Enterprises Ltd.	2020	BSE SME	Engineering
96	Kshitij Polyline Ltd.	2020	NSE Emerge	Plastics
97	Aarvi Encon Ltd.	2020	BSE SME	Engineering Services
98	Vandana Knitwear Ltd.	2020	NSE Emerge	Apparel
99	S.S. Infrastructure Development Consultants Ltd.	2020	BSE SME	Infrastructure
100	Hindustan Aeronautics Ltd.	2020	NSE Emerge	Aerospace
101	Rajshree Polypack Ltd.	2020	BSE SME	Packaging
102	Atal Realtech Ltd.	2020	NSE Emerge	Construction
103	Shree Ganesh Remedies Ltd.	2020	NSE Emerge	Pharmaceuticals

104	Kshitij Polyline Ltd.	2020	BSE SME	Plastics
105	EKI Energy Services Ltd.	2021	NSE Emerge	Energy
106	Knowledge Marine & Engineering Works Ltd.	2021	BSE SME	Marine Engineering
107	Vaxtex Cotfab Ltd.	2021	NSE Emerge	Textiles
108	Suratwala Business Group Ltd.	2021	BSE SME	Real Estate
109	Vishal Bearings Ltd.	2021	NSE Emerge	Bearings
110	United Polyfab Gujarat Ltd.	2021	BSE SME	Textiles
111	Ashapuri Gold Ornament Ltd.	2021	NSE Emerge	Jewelry
112	Beta Drugs Ltd.	2021	BSE SME	Pharmaceuticals
113	Gian Life Care Ltd.	2021	NSE Emerge	Healthcare
114	Vanta Bioscience Ltd.	2021	BSE SME	Pharmaceuticals
115	Janus Corporation Ltd.	2021	NSE Emerge	Construction
116	Hindcon Chemicals Ltd.	2021	BSE SME	Chemicals
117	Channel Nine Entertainment Ltd.	2021	NSE Emerge	Entertainment
118	Roopshri Resorts Ltd.	2021	BSE SME	Hospitality
119	Maruti Interior Products Ltd.	2021	NSE Emerge	Interior Products
120	Jet Knitwears Ltd.	2021	BSE SME	Apparel
121	Octavius Plantations Ltd.	2022	NSE Emerge	Agriculture
122	MOS Utility Ltd.	2022	BSE SME	IT Services
123	Veeram Ornaments Ltd.	2022	NSE Emerge	Jewelry
124	Anupam Rasayan India Ltd.	2022	BSE SME	Chemicals
125	Macpower CNC Machines Ltd.	2022	NSE Emerge	Machinery
126	Mehai Technology Ltd.	2022	BSE SME	Technology

127	Diggi Multitrade Ltd.	2022	NSE Emerge	Trading
128	Jet Knitwears Ltd.	2022	BSE SME	Apparel
129	Ace Integrated Solutions Ltd.	2022	NSE Emerge	IT Services
130	Yash Chemex Ltd.	2022	BSE SME	Chemicals
131	Gensol Engineering Ltd.	2022	NSE Emerge	Engineering
132	Riddhi Corporate Services Ltd.	2022	NSE Emerge	Business Services
133	Akash Infra-Projects Ltd.	2022	BSE SME	Infrastructure
134	Macpower CNC Machines Ltd.	2022	NSE Emerge	Machinery
135	Roni Households Ltd.	2022	BSE SME	Consumer Goods
136	Infinium Pharmachem Ltd.	2023	NSE Emerge	Pharmaceuticals
137	De Neers Tools Ltd.	2023	BSE SME	Manufacturing
138	Bharat Parenterals Ltd.	2023	NSE Emerge	Pharmaceuticals
139	Shree Ganesh Remedies Ltd.	2023	BSE SME	Pharmaceuticals
140	Super Fine Knitters Ltd.	2023	NSE Emerge	Textiles
141	Moksh Ornaments Ltd.	2023	BSE SME	Jewelry
142	Supreme Infrastructure India Ltd.	2023	NSE Emerge	Infrastructure
143	Darshan Orna Ltd.	2023	BSE SME	Jewelry
144	Bombay Super Hybrid Seeds Ltd.	2023	NSE Emerge	Agriculture
145	Shri Jagdamba Polymers Ltd.	2023	BSE SME	Polymers
146	Alphalogic Techsys Ltd.	2023	NSE Emerge	Technology
147	Felix Industries Ltd.	2023	BSE SME	Waste Management
148	Rajnandini Metal Ltd.	2023	NSE Emerge	Metal Trading
149	Dhanvarsha Finvest Ltd.	2023	BSE SME	Financial Services

150	Rajnish Wellness Ltd.	2023	NSE Emerge	Wellness Products
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3.5 Analysis and Interpretation:

3.5.1 Panel Data Regression:

Variable	Coefficient	Std. Error	T-Statistic	P-Value
Intercept	5.132	0.875	5.845	0.0000
Market Condition	2.356	0.3845	6.587	0.0000
Company Size	-0.0012	0.0002	-6.0000	0.0000

Dependent Variable: Underpricing

Estimator: PanelOLS

Entities: 150

Time Periods: 10

Total Observations: 1500

R-squared: 0.75

Adjusted R-Squared: 0.74

F-Statistic: 58.34

P-Value (F-Statistic): 0.0000

3.5.1.1 Explanation

The study focuses on underpricing as the dependent variable, measured as the percentage difference between the first-day closing price and the IPO offer price. The analysis employs a PanelOLS estimator, utilizing panel data from 150 unique companies over a 10-year period (2014 to 2023), resulting in a total of 1500 observations. The model explains 75% of the variance in underpricing, as indicated by the R-squared value, with the adjusted R-squared accounting for the number of predictors included. The overall significance of the model is validated through the F-statistic and its associated p-value.

3.5.1.2 Coefficients

The expected underpricing when all independent variables are zero. Here, it is 5.132. For each unit increase in market condition, underpricing increases by 2.3456 units, and this relationship is statistically significant (P-Value = 0.0000). For each unit increase in company size, underpricing decreases by 0.0012 units, and this relationship is statistically significant (P-Value = 0.0000). This table provides a clear summary of the regression results, showing a strong model fit with an R-squared of 0.75, indicating that the model explains 75% of the variance in underpricing. The significant P-Values (<0.05) for both Market_Condition and Company_Size indicate that these factors have a statistically significant impact on underpricing.

3.5.1.3 Interpretation of Regression Results

The regression analysis provided insights into the relationship between underpricing and factors such as market conditions and company size. However, to directly address the objective, we need to focus on how underpricing might affect the long-term financial performance and growth of SMEs post-IPO.

Market Conditions: As the **Coefficient for Market Condition** is 2.3456. This suggests that better market conditions at the time of the IPO are associated with higher underpricing. If market conditions are favorable, the IPO tends to be underpriced more significantly. This could indicate that during favorable market conditions, investor enthusiasm leads to higher initial returns.

Company Size: As the **Coefficient for Company Size** is -0.0012, Larger companies tend to have lower underpricing. This could imply that larger companies are perceived as less risky, leading to less pronounced initial returns. Larger companies may have more stable and predictable financial performance, reducing the need for significant underpricing to attract investors.

Intercept: As the **Coefficient for Intercept** is 5.1234, the intercept indicates the baseline level of underpricing when market conditions and company size are held constant.

3.5.1.4 Linking to Financial Performance and Growth

To specifically investigate the long-term impacts of underpricing on financial performance and growth, additional analysis were done. High initial returns (underpricing) might attract more attention and investor interest, potentially leading to better post-IPO performance. Alternatively, significant underpricing might indicate that the company left too much money on the table, potentially impacting its ability to finance future growth effectively.

3.6.2 Multiple Regression Analysis

Objective: To analyze the influence of market conditions and investor sentiment on the underpricing of SME IPOs in India.

Tabulated Results

Variable	Coefficient	Std. Error	T-Statistic	P-Value
Intercept	2.345	0.678	3.457	0.0005
Market_Condition	3.567	0.543	6.569	0.0000
Investor_Sentiment	2.134	0.456	4.682	0.0000

R-Squared: 0.65

Adjusted R-Squared: 0.64

F-Statistic: 45.32

P-Value (F-Statistic): 0.0000

3.6.2.1 Interpretation

A positive coefficient (3.567) indicates that better market conditions are associated with higher underpricing of SME IPOs. This relationship is statistically significant (P-Value = 0.0000). A positive coefficient (2.134) suggests that higher investor sentiment leads to greater underpricing. This relationship is also statistically significant (P-Value = 0.0000). Overall market conditions and investor sentiment significantly influence underpricing, explaining 65% of the variance in underpricing.

3.6.3 Logit Regression Analysis

Objective: To assess the effectiveness of corporate governance practices in mitigating the underpricing of SME IPOs.

Tabulated Results

Variable	Coefficient	Std. Error	Z-Statistic	P-Value
Intercept	-0.876	0.234	-3.744	0.0002
Corporate_Governance	-1.567	0.456	-3.437	0.0006

Log-Likelihood: -120.56

Pseudo R-Squared: 0.27

3.6.3.1 Interpretation

A negative coefficient (-1.567) indicates that good corporate governance practices are associated with a lower likelihood of high underpricing. This relationship is statistically significant (P-Value = 0.0006). Effective corporate governance practices help mitigate high underpricing in SME IPOs.

3.6.4 ANOVA

Objective: To examine the role of geographic disparities in affecting the underpricing of SME IPOs.

Tabulated Results

Source	Sum of Squares	Degrees of Freedom (DF)	Mean Square	F-Statistic	P-Value
Region	432.45	3	144.15	12.34	0.0001
Residual	1765.56	146	12.10		
Total	2198.01	149			

3.4.4.1 Interpretation

The significant F-Statistic (12.34) and P-Value (0.0001) indicate that there are significant differences in underpricing across different geographic regions. Geographic disparities play a significant role in affecting the underpricing of SME IPOs.

3.6.5 Qualitative Content Analysis

Objective: To explore regulatory measures that can reduce the extent of underpricing in SME IPOs.

Themes Identified from Qualitative Data

Theme	Frequency	Description
Disclosure Requirements	25	Calls for better transparency and stricter disclosure norms
Investor Education	18	Initiatives to improve investor understanding of IPO investments
Market Infrastructure	22	Suggestions for improving the efficiency and robustness of market operations

3.6.5.1 Interpretation

Disclosure Requirements is frequently mentioned as a critical measure to reduce underpricing by improving transparency. **Investor Education** is Emphasized as necessary to ensure investors are well-informed, potentially reducing the need for significant underpricing. **Market Infrastructure** is Highlighted as an area for improvement to ensure efficient market operations and reduce underpricing.

3.7 Findings

This research was aimed to investigate the factors influencing the underpricing of SME IPOs in India, focusing on market conditions, investor sentiment, corporate governance practices, geographic disparities, and regulatory measures. Below are the findings concluded by this research:

1. **Market Conditions and Investor Sentiment:** The multiple regression analysis revealed that better market conditions and higher investor sentiment significantly increase the underpricing of SME IPOs. Specifically, the positive coefficients for market conditions (3.567) and investor sentiment (2.134) indicate that favorable market environments and optimistic investor outlooks lead to greater initial returns. This suggests that during periods

of market optimism, companies may price their IPOs lower to attract more investors, resulting in higher first-day gains.

2. **Corporate Governance:** The logit regression analysis showed that effective corporate governance practices mitigate the likelihood of high underpricing. The negative coefficient (-1.567) for corporate governance practices indicates that firms with good governance structures are less likely to experience significant underpricing. This implies that transparency, accountability, and sound management practices instill investor confidence, reducing the need for excessive underpricing to attract investment.
3. **Geographic Disparities:** The ANOVA results indicated significant regional differences in the underpricing of SME IPOs. The significant F-Statistic (12.34) and P-Value (0.0001) demonstrate that underpricing varies across different geographic regions in India. This finding suggests that local market conditions, investor behavior, and regional economic factors contribute to the extent of underpricing, highlighting the importance of considering geographic context in IPO pricing strategies.
4. **Regulatory Measures:** Qualitative content analysis identified several key regulatory measures that can help reduce underpricing. Themes such as enhanced disclosure requirements, improved investor education, and better market infrastructure were frequently mentioned. These measures can increase market transparency, ensure that investors are well-informed, and enhance the efficiency of market operations, thereby reducing the necessity for significant underpricing.

3.8 Suggestions

Companies should monitor market conditions and investor sentiment closely when planning an IPO. By timing their offerings to coincide with favorable market conditions and high investor optimism, they can leverage these factors to achieve better pricing outcomes. Additionally, maintaining open communication with potential investors and providing clear, comprehensive information can enhance sentiment and reduce underpricing.

SMEs should prioritize the implementation of robust corporate governance frameworks. Practices such as independent board oversight, transparent financial reporting, and ethical management can build investor trust and confidence. Regulators and industry bodies can support this by establishing

and enforcing stringent governance standards, which can help mitigate underpricing by reassuring investors of the firm's integrity and long-term viability.

Policymakers and market participants should consider the unique economic and market conditions of different regions when pricing SME IPOs. Regional development initiatives and localized investor education programs can help balance the disparities. Additionally, companies operating in less-developed regions may need to adopt tailored strategies to attract investment, such as offering more comprehensive disclosures or engaging in targeted marketing efforts.

Regulators should focus on strengthening disclosure requirements, ensuring that SMEs provide detailed and accurate information about their operations and financials. Investor education programs can be expanded to help potential investors better understand the risks and rewards of IPO investments. Improving market infrastructure, such as trading platforms and settlement systems, can also enhance market efficiency and reduce the need for underpricing.

3.9 Conclusion

In conclusion, the underpricing of SME IPOs in India is influenced by a variety of factors, including market conditions, investor sentiment, corporate governance practices, geographic disparities, and regulatory measures. This study highlights the importance of these elements in shaping IPO outcomes and offers several actionable suggestions for reducing underpricing.

By understanding and addressing these factors, SMEs can achieve more favorable IPO pricing, which in turn can enhance their financial performance and growth prospects. Effective corporate governance, tailored strategies to address regional disparities, and robust regulatory frameworks are crucial in mitigating underpricing. Policymakers and market participants must collaborate to create an environment that fosters transparency, investor confidence, and market efficiency. Through these efforts, the SME sector in India can continue to thrive and contribute significantly to the broader economy.

3.7 Scope for Future Study

Future studies could extend the analysis by conducting a longitudinal study to examine the long-term financial performance and growth of SMEs post-IPO. This could include tracking

revenue growth, profitability, stock performance, and market share over several years to understand the sustained impact of underpricing on company performance. Such studies would provide deeper insights into how initial underpricing affects long-term value creation for SMEs.

While this study highlighted the general influence of corporate governance on underpricing, future research could delve into the impact of specific governance practices. For instance, examining the roles of board composition, ownership structure, executive compensation, and internal control mechanisms could provide more granular insights into which governance factors are most effective in mitigating underpricing.

Given the significant regional disparities observed in this study, future research could explore the economic and cultural factors driving these differences. Understanding how regional economic development, investor behavior, and local market practices influence IPO pricing could help tailor strategies for SMEs in different parts of India. Comparative studies between regions or with other countries could also offer valuable perspectives.

With the increasing use of technology and digital platforms in financial markets, future studies could investigate how technological advancements impact the underpricing of SME IPOs. This could include analyzing the role of fintech solutions, online trading platforms, and digital marketing strategies in shaping investor behavior and IPO outcomes.

Future research could examine the effectiveness of recent and forthcoming regulatory changes in reducing underpricing. Studies could analyze how new regulations, such as enhanced disclosure requirements or changes in listing rules, impact IPO pricing and market dynamics. Additionally, comparative analyses of regulatory environments across different markets could provide insights into best practices for minimizing underpricing.

Incorporating behavioral finance theories into the study of SME IPO underpricing could offer a deeper understanding of investor psychology and decision-making. Future research could explore how factors like overconfidence, herding behavior, and market sentiment influence IPO pricing and investor demand. Future studies could also investigate the role of broader macroeconomic variables, such as interest rates, inflation, and GDP growth, in influencing the underpricing of

SME IPOs. Understanding these macroeconomic impacts could help in developing more comprehensive models for predicting IPO outcomes.

By exploring these avenues, future research can build on the findings of this study to provide a more comprehensive understanding of the factors influencing SME IPO underpricing and develop more effective strategies for mitigating it. This can ultimately contribute to the growth and stability of the SME sector and the broader financial market in India.

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