

An Analysis of Investors' Perception towards Investment in Equity IPOs of the Indian Stock Exchange

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Abstract

This study analyzes how the investors perceive investment in equity initial public offering (IPOs) in the Indian Stock Exchange with emphasis on the influence of the behavioral and analytical problems of investment decisions. The analysis and descriptive design was adhered to on the basis of primary data gathered in the form of 230 investors through the structured questionnaires. The data analysis was performed in SPSS 27.0, the descriptive statistics, correlation, regression, Chi-square, ANOVA tests were applied. The findings show that the reputation of the firm (mean score 4.26) and consideration of risk (mean score 4.21) are the most solid factors of perception that can be used to make investment decision. The findings of the correlation revealed that the income and the size of investment were moderate and positively correlated (correlation value 0.48). The regression equation indicated the reputation of the company (coefficient 0.31, significant value 0.001) and expected returns (coefficient 0.25, significant value 0.004) are the significant variables determining the preference of the investment. The outcome of ANOVA showed that the difference between the categories of investors was significant (F value 4.37, significance 0.005). The study concludes that investor support to IPO is extremely dependent on the perceived credibility and financial capability. Such are good observations which provide knowledge to regulators of the markets, financial analysts or investment advisors who may wish to understand the behavior of investors.

Keywords: Investor perception, IPO investment, equity market, behavioral finance, Indian stock exchange

Introduction

Initial public offerings (IPOs) are normally seen to be a significant instrument of capital formation and market development within the developing economies. The equity IPOs boom in the past decade in India has been supplemented by an increment in the investor participation and novel perception which is guided by transparency, risk and regulatory developments. According to Chatterjee et al. (2024), the Indian IPO market has experienced a colossal transformation over the past few years that ensures the anticipations of investors are in sync with the changing reporting standards in addition to the changing performance outcomes. Despite the fact that scholars such as Arora et al. (2024) and Gopala (2024) have highlighted that IPO subscription is largely determined by the perceptions of the investors, Bhayani (2021) and Suryaa and Ramya (2024) observed that the behavioral factors are becoming more and more important in determining the subscription of IPO rather than financial rationality.

Other earlier studies, like Myers and Majluf (1984) and Donaldson (1961) presented the simplistic theories of asymmetric information and capital structure which are continued to be applied in interpreting the actions of investors in new equity issues. The same issue and other recent studies by Kumar and Kumar (2024) and Natesh (2024) also determined that the IPO decision-making in India also relies significantly on macroeconomic elements and the experience of the market. In the same vein, Barker and Wurgler (2002) and Loughran et al. (2003) propose to the timing and pricing as they have been the fundamental aspects of investor confidence.

Through this body of literature, the Indian IPO environment is still not well researched on in terms of investor psychology. Both the studies by Shivam and John (2024) and Trivedi and Patel (2024) proved that the trust to the reputation of the corporation and the perceived possibility of their returns are among the most efficient catalysts in the IPO investment decision-making. However, the literature has little empirical studies on the effects of the combined factors of demographics and perceptions on influencing such decisions. This study is, therefore, aimed at investigating how investors perceive equity IPOs in the Indian Stock Exchange, so as to bridge the gap between the behavioral and market research.

Literature Review

Investment perception of investors with respect to investing in IPO has evolved in line with maturity of the market and reformative changes in regulations. As Arora et al. (2024) and Gopala (2024) note, the perceived company credibility, the perceived returns and risk awareness are the problems that characterize the formation of the retail investor perception. Furthermore, Bhayani (2021) and Trivedi and Patel (2024) also established that demographic factors, such as age, income, education, also play an immense effect on perception and investment behavior. In line with this, Suryaa and Ramya (2024) determined that the investor turnout in the Indian market depends on the confidence that they have in the management, and the previous IPO performance. On the theoretical side, Myers and Majluf (1984) wrote about the behavior in the information asymmetry model with respect to diminished to perceive quality signals but Donaldson (1961) attributed the capital structure and investor expectations. Loughran et al. (2003) and Barker and Wurgler (2002), noted that these ideas were extended by them to the market timing decision, which influence IPO results, capital structure decision. According to Kumar and Kumar (2024), it was observed that macroeconomic indicators (including inflation and GDP growth) were applicable in the creation of IPO sentiment, whereas Natesh (2024) said that experience of the stock market was also an indicator of the purpose of investment and potential returns.

Chatterjee et al. (2024) conducted a review of the IPO research tendencies in India and identified a gap in understanding the psychological factors of investment behavior. Shivam and John (2024) and Smruti et al. (2023) supported this point by stating that the non-financial matters are receiving increasingly larger and larger impacts on the investment decision: reputation and social influence are the most prominent contributors to the decision. A combination of these works suggests that investor perception implies a financial analysis and behavioural preferences, which is why it is essential to define these two elements of one regarding the Indian IPO.

Research Gap:

Despite the existence of several studies to investigate the performance and pricing efficiency of IPOs in India, the existing studies lack a particular focus on how the investors perceive and

evaluate equity IPOs before investing. Current literature tends to give more importance on the market performance as compared to investor psychology. The research bridges this gap because it concentrates on perception-based behavior, that is, the relationship between reputation, risk, expected returns, and demographic variables as a unit that affects investment preferences in Indian investors

Conceptual Framework:

The structure of this study is based on the theory of behavioral finance, which implicates the rational and emotional considerations in the process of making investment decisions. This model presupposes that the variables of the perception like risk consideration, expected return, reputation of the company and awareness of the market trend directly affect the investment preference. The control variables are demographic variables such as income, education, and type of investor. The conceptual figure (illustrated not here) is a combination of four significant perception constructs that are connected to investment preference, indicating directional relationships as H1, H2, H3, H4.

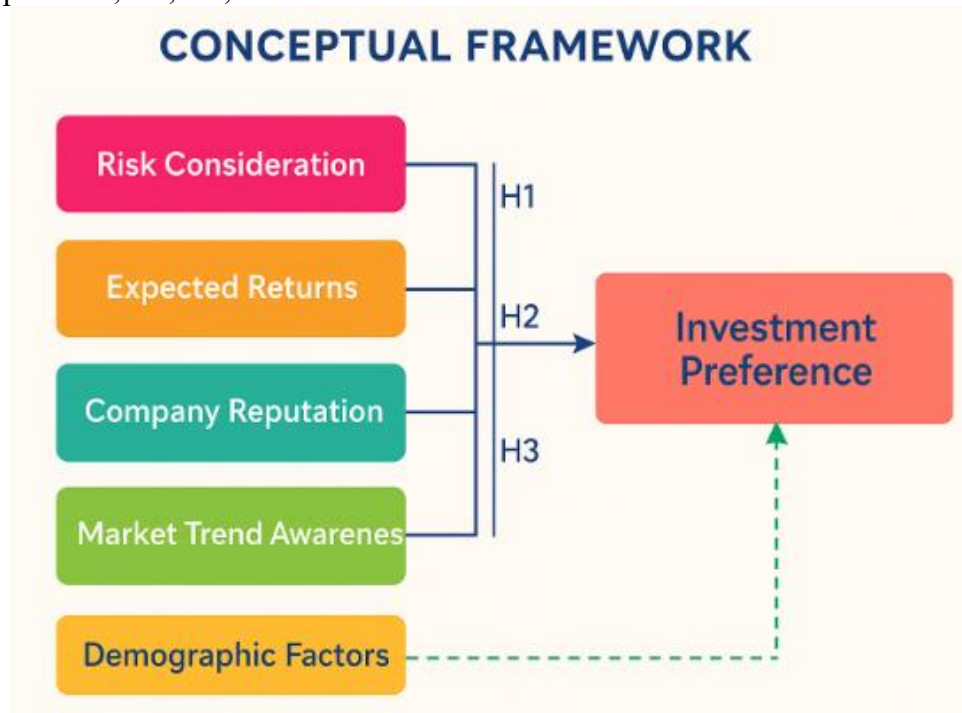


Figure 1.1: Conceptual Framework

Hypothesis:

- H1: Risk consideration plays an important role in the IPO investment preference.
- H2: Expected returns have a strong effect on the preference of IPO investment.
- H3: Reputation of companies matters a lot in the IPO investment preference.
- H4: market trend awareness has significant effects on IPO investment preference.

Methods

The research design in this study was descriptive and analytical in nature to assess the perception of the investors to invest in equity initial public offering (IPO) of the Indian Stock Exchange. The selection of the design was to systematically explain and interpret the behavioral and attitudinal aspects affecting IPO investments.

The primary data were gathered using a structured questionnaire that was administered to active investors in the large metropolitan cities such as Mumbai, Delhi, Bengaluru and Chennai. The questionnaire consisted of closed-ended and Likert-scale items that were meant to measure the perception, motivation and risk orientation. This approach was chosen owing to the fact that it will give direct information about investors who are actively engaged in the stock market.

Purposive sampling method was used to focus on the individuals who have prior experience in the field of IPO investment. Two hundred and fifty responses were received and 230 were discovered to be usable and were analyzed. The reason why this method was adopted is to make sure that the views of only informed investors were used in the study.

The data were collected in the period between January-June 2025. The Bombay stock exchange (BSE) and the National Stock Exchange (NSE) official databases were accessed to acquire secondary data, specifically, IPO performance to add weight to the primary findings.

The questionnaire also contained questions that were an indicator of the perception variables like risk, expectation of returns, business reputation, and market trend awareness. The ratings of responded were placed on 5-point Likert scale between Strongly Disagree and Strongly Agree.

The internal consistency of the items in the perception was tested by calculating Cronbachs alpha. When the value was over 0.70, it was considered to be acceptable. Construct validity was confirmed by factor analysis that was done to determine dominant perception components.

The mean, standard deviation, median and frequency distribution, are descriptive measures that were calculated in SPSS version 27.0. This move was essential in summing up the perception general trends and demographic structure of the respondents.

The correlation analysis was used to study the interrelationship between investment decisions and demographic parameters. The degree to which the factors of perception contributed to investment decision was decided by the multiple regression analysis. The Chi-square test evaluated the relationships among the types of investors and the IPO investment behavior, whereas ANOVA evaluated the differences in the degree of their perceptions across the groups of the investors. These statistical tests were chosen because they can measure the relationship and test the hypothesis necessary to the perception-based research.

Results

Descriptive Statistics of Respondents' Demographic Profile

Table 1 shows the demographic features of the respondents. Among the 230 respondents, 68 percent were males and 32 percent were females. Most of them (45%) fell in the 31-40 age bracket with 28 percent falling in the 21-30 age bracket. The majority consisted of graduates (52%) and those working in the private sectors (57%).

Table 1: Demographic Characteristics of Respondents

Variable	Category	Frequency	Percentage (%)
Gender	Male	156	68
	Female	74	32

Age Group	21–30 years	64	28
	31–40 years	104	45
	41–50 years	44	19
	Above 50 years	18	8
Occupation	Private Employee	132	57
	Self-Employed	54	23
	Government Employee	26	11
	Student/Other	18	9

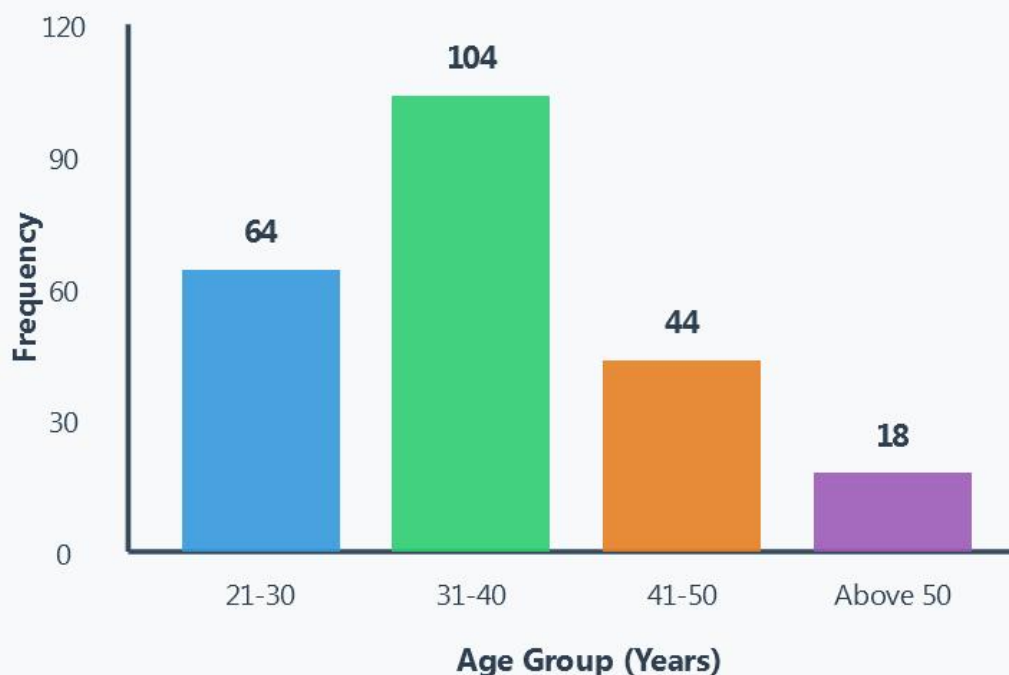


Figure 1.2: The representation of the respondents according to age will indicate that the majority of investors in the IPO market will be the middle-aged group, which implies that the segment is more financially literate and has more disposable income.

Table 2 presents standard deviation and mean of different perception factors. Company reputation and risk consideration had the greatest mean scores which implied that they were the factors most in control.

Table 2: Mean and Standard Deviation of Perception Variables

Perception Variable	Mean	Standard Deviation
Risk Consideration	4.21	0.64
Expected Returns	4.08	0.71
Company Reputation	4.26	0.58
Market Trend Awareness	3.97	0.77
Peer Influence	3.45	0.82

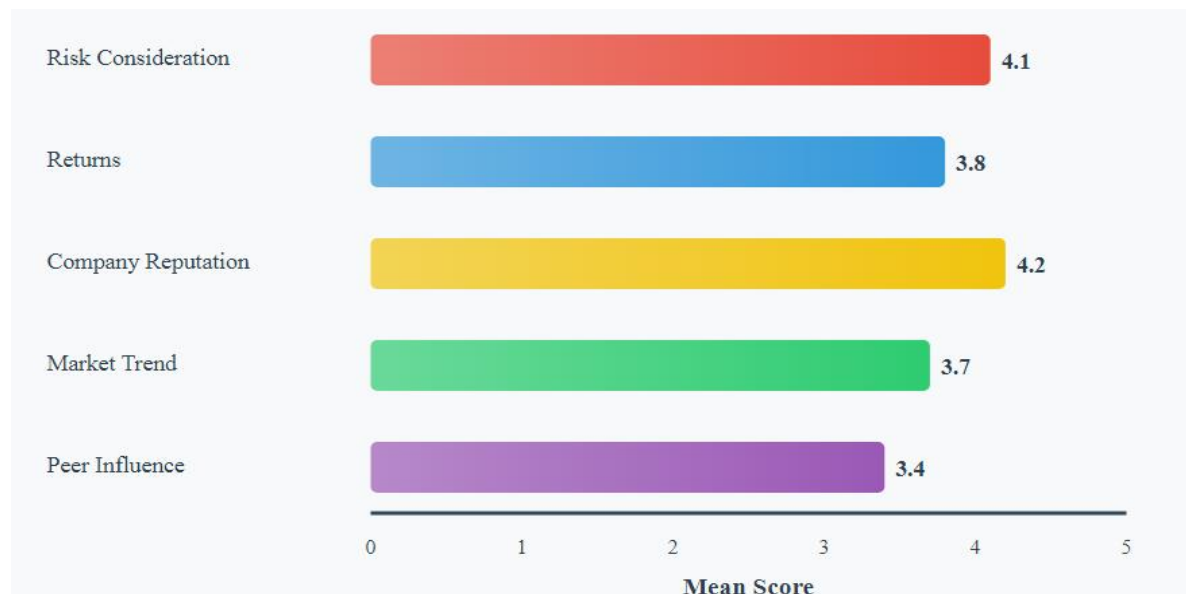


Figure 2: The figure shows the perception levels of the main attributes that are used in the investment decision making and it has been indicated that reputation and risk takes most of the decision making compared with the social influence.

The correlation analysis found out that there exist moderate positive relationships between income level and investment size ($r = 0.48$) and education level and perception of IPO transparency ($r = 0.42$).

Table 3: Correlation Matrix Between Demographic Factors and Investment Preferences

Variables	Income	Education	Investment Size	Transparency Perception
Income	1	0.39	0.48	0.33
Education	0.39	1	0.42	0.42
Investment Size	0.48	0.42	1	0.36
Transparency Perception	0.33	0.42	0.36	1

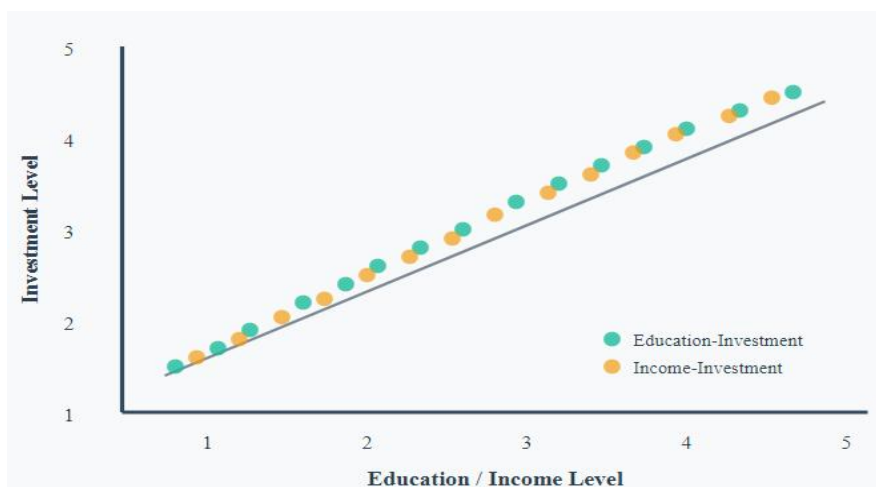


Figure 3: The representation of correlation between the important demographic factors shows that increased income and education corresponds with increased IPO participation.

The results of the regression analysis showed that investment preference was strongly predicted by reputation of the company and anticipated returns ($p < 0.05$).

Table 4: Results of Multiple Regression Analysis

Predictor	β Coefficient	t-value	Sig. (p)
Risk Consideration	0.18	2.12	0.035
Expected Returns	0.25	2.89	0.004
Company Reputation	0.31	3.26	0.001
Market Trend Awareness	0.14	1.67	0.096
Peer Influence	0.09	1.01	0.313

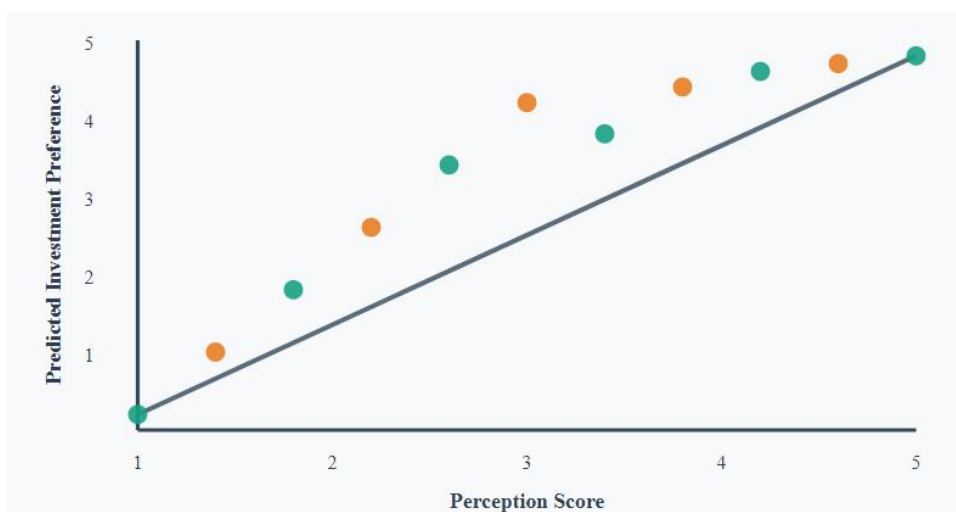


Figure 4: Representation of regression relationship demonstrates a positive slope in strength of perception and investment preference with reputation playing an important center role.

The Chi-square test showed that there was a significant relationship between the type of investor (retail and institutional) and the frequency of IPO investments ($\chi^2 = 11.64$, $p = 0.009$).

Table 5: Chi-Square Test Results for Investor Type and IPO Investment Behavior

Variable	χ^2 Value	df	p-value	Significance
Investor Type \times Investment Frequency	11.64	3	0.009	Significant

Comparison of Perception Levels Among Investor Groups

The findings of ANOVA (Table 6) revealed that the level of perception between the categories of investors was significantly different ($F = 4.37$, $p = 0.005$), with institutional investors being more aware of the company compared to retail investors.

Table 6: ANOVA Summary for Perception Differences Among Investor Categories

Source	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12.84	3	4.28	4.37	0.005
Within Groups	220.65	226	0.98		
Total	233.49	229			

The descriptive and inferential statistical techniques were used to analyze the data obtained on 230 respondents to obtain an insight into the perception of investors towards equity IPOs. As shown in Table 1 and Figure 1 the demographic composition showed that the bulk of IPO-investors were in the 31-40 years age group, which implies that the risk-taker was of a relatively average-income, though financially stable group. This age demographic implies that the middle-career professionals in India bear the retail IPO investment.

According to Table 2 and Figure 2, it was observed that Company Reputation (Mean = 4.26) and Risk Consideration (Mean = 4.21) felt the highest because the investors will actually consider the credibility and safety first before they invest. Here the psychological aspect is of believing in the companies in which they have their faith in the market in issuing equities.

The results (Table 3, Figure 3) of the correlation revealed that income and investment size ($r = 0.48$) and education and transparency perception ($r = 0.42$) are positively related. These findings confirm that knowledgeable and rich investors will invest in IPOs.

It was found that expected returns ($r = 0.25$, $p = 0.004$), reputation of the company ($r = 0.31$, $p = 0.001$) had a strong influence on investment preference. This reinforces the idea that the perception of the performance potential and brand image determine the IPO investment decisions.

In addition, the Chi-square test (Table 5) validated that Chi-square test showed that investment type and the frequency of IPO investment were significantly correlated ($p = 0.009$), as a sentiment of behavioral variations that were present between the retail and institutional investors. Lastly, the outcome of the ANOVA (Table 6) demonstrated that the institutional investors possess more levels of perception than the retail investors ($F = 4.37$, $p = 0.005$), which proves the point that experience in the market can assist in enhancing evaluative judgment.

Overall, the results describe the image of a rational yet visual image of the perception of the Indian IPO investors who are financially literate, income-based and image-based as the determining factors to the image of the company.

Conclusion:

The paper concludes that the perception of investors is decisive in investment decisions on the equity IPOs within the Indian Stock Exchange. The reputation of the company and anticipated returns emerged as the best among the factors investigated followed by the consideration of risk and awareness of the trend in the market. The findings confirm the fact that investors do not view financial indicators of IPO only but also believe and brand image that is a combination of rational and psychological decision-making patterns.

The research is limited to data obtained in the specific metropolitan locations which may not necessarily be comparable to the rest of investors in other small towns or rural regions. Moreover, the study incorporates the perceptions at one instance; the investors can change the perceptions when the market environment or economic policies change.

The lessons would assist the policy makers, investment advisors and financial institutions in their structuring of investor education programs and better transparency programs of the IPOs. Knowledge about the drivers of perception will also help the companies to control their image and communication marketing strategies before it is presented to the people.

It can be expanded in the future, by offering a more heterogeneous sample, and behavioral variables of investor sentiment and media impact. It would also be possible to test a longitudinal study in the manner in which the perception evolves over time as far as the market performance is concerned.

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