A STUDY OF IMPACT OF IPO GRADING ON DECISION OF RETAIL INVESTOR TO SUBSCRIBE IN AN IPO

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ABSTRACT

IPO grading assesses the fundamentals of the Initial Public Offerings (IPOs) and is reflected on a five point scale (1-5) with a higher score indicating stronger fundamentals of the IPO issuing firm. SEBI (India’s capital market regulator) introduced the IPO grading as a mandatory requirement for all IPOs, and the requirement seems to have been borne by the fact that, in India, where institutions are less developed and retail participation in IPOs is significant, quality signal represented by an IPO grade yields discernible benefits to the market. We note that while SEBI and the rating agencies advocate the benefit of the IPO grade, not everyone in the industry and academia is convinced of the grade’s merits. To analyze the efficacy of IPO grading, regression analysis and correlation has been used for the study of 23 IPOs that have been graded which came during the year 2011-12. Through this study, it was found that IPO Grading does not affect the decision of retail investor to subscribe in an IPO.

KEYWORDS: IPO, IPO Grading, Retail Investor, Subscription.