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Short-Term Versus Long-Term Value Creation for Investors: Empirical Evidence from Mainboard IPO Performance in India

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Abstract: This research examines the differences in short-term and long-term value creation for 40 mainboard Initial Public Offerings (IPOs) listed on the Indian stock markets (BSE and NSE) from April 2022 to March 2023, during a time period that has been defined by the need for reassessment after a global pandemic, increasing interest rates globally, and the uncertainty regarding global geopolitics. Data for this study were obtained from the CMIE Prowess database as secondary data and analysed in Microsoft Excel. Empirical research was conducted to evaluate seven research objectives using one-sample t-tests, paired t-tests, Pearson correlation analysis, and multiple linear regression. The results indicate that the sample IPOs were significantly underpriced on their respective listing days, as the average listing-day gain was 10.36% ($t=2.587$, $p=0.014$), and 65% of IPOs posted positive first-day returns. To measure long-term wealth creation over a period of one year, an average return of 60.69% was calculated ($t=2.951$, $p=0.005$), although a small number of extraordinary performers skews this large return; the median long-term return was 12.28% and 45% of the IPOs during this period had negative returns and destroyed wealth for investors. Importantly, this study demonstrates that the short-term and long-term performance of IPOs are independent statistically ($r=0.025$, $p=0.876$), which represents the most significant contribution of this study. Furthermore, using a paired-samples t-test, the researchers confirm a high level of significance for this independence ($t=6.175$, $p<.001$). The subscription level can be regarded as the major predictor of performance for initial day transactions (correlation coefficient of +0.719) ($R^2 \approx 50\%$), however, the profitability ratios (return on average assets (ROA), return on average equity (ROE) and earnings per share (EPS)) would not be a statistically significant predictor for the short-term return on investment as indicated by an ANOVA analysis ($F = 0.595$, p-value = 0.623 ($R^2 = 4.72\%$)). The very strong negative relationship between the price-to-earnings (P/E) ratio on the date of listing and the first-day gain ($r = -0.648$) corroborates the overvaluation hypothesis. There is no statistically significant predictive power of the time in business on either time period. Furthermore, the results suggest that Behavioural Finance Theory is much more relevant than Fundamental Valuation Theory for the primary market; however, they also indicate that long-term value is generated by fundamental underlying business performance. The implications of these findings are important for retail investors, issuers, merchant bankers and other regulatory bodies, particularly the Securities and Exchange Board of India (SEBI).

***Keywords*:** *Initial Public Offerings (IPO); Underpricing; Long-term wealth creation; Subscription levels; Behavioural Finance; Indian Capital Markets; Winner's Curse; Mainboard IPO.*

1. INTRODUCTION

Over the last 10 years, the structure of India's primary capital market has transformed, making it now one of the world's largest and most prestigious Initial Public Offering (IPO) markets. The increasing number of domestic retail investors (demat accounts grew from c. 40 million in 2020 to c. 220 million by 2025) has made India the second-largest IPO market in the world by proceeds raised in 2024. In light of this rapid change, the academic and practical question of how IPOs create or destroy value for investors at the time of listing and over longer holding periods has become an important concern for both academics and practitioners.

A well-documented empirical phenomenon across global IPO markets is short-term underpricing (defined as shares being offered at less than their true market value) followed by positive returns on the first trading day for subscribing investors (Rock, 1986; Ritter, 1991). The occurrence has been well documented in India (Manu & Saini, 2020; Singh & Kumar, 2008; Sahoo & Rajib, 2010), with the average return to investors on the first day of trading historically ranging from 10% to 30% across a variety of IPO classes. Likewise, the literature has consistently shown that IPO stocks are expected to underperform the overall market index over longer holding periods, typically three- to five-year (Ritter, 1991; Dessai, 2015; Kumar, 2015).

Even though there has been extensive research on each phenomenon separately, very little has examined the statistical relationship (or independence) between short-term listing performance and long-term wealth creation within a single IPO cohort. Much of this belief is based on the implicit assumption that strong first-day IPO gains signal quality and future performance, a view shared by the majority of investors. However, there have been no rigorous statistical evaluations of this relationship in the Indian post-COVID market to date. This study seeks to fill that gap.

The sample for this research comprises 40 mainboard IPOs listed on the Indian stock market between April 2022 and March 2023. This IPO cohort is strategically important because it encompasses the currently evolving Indian primary market; it follows the euphoric boom of 2021 (when 63 IPOs raised a total of ₹1,18,723 crore with first-day average gains of 32%), operates under heightened global macroeconomic stress, and is currently in between periods of renewed strength for 2024. As a result, this cohort is characterised by more moderate, arguably more rational, investor sentiment, making it an instructive environment for conducting research to determine the factors that drive primary and secondary market performance.

Seven empirical objectives guide the research: (1) the evaluation of the market return on the listing of an IPO (first day of trading); (2) the evaluation of wealth creation in the secondary market one year after the IPO is complete; (3) the evaluation of short and long-term performance using independent comparative methods; (4) the examination of the effect of firm age on IPO performance; (5) the examination of whether profitability ratios (ROA, ROE, EPS) predict future returns; (6) the examination of the impact of valuation ratios (P/E, M/B) on performance at the time of listing; and (7) an analysis of how subscription levels affect IPO performance. Together, the objectives of this study will provide a framework for the understanding of the value-creation processes in the primary and secondary markets for Indian mainboard IPOs.

This paper is organised to facilitate readers' navigation through the various components of the research study. Section 2 provides an overview of the existing theoretical and empirical literature relevant to this research. Section 3 describes the research methodology and the data sources used in this study. Section 4 presents empirical findings related to the study's seven objectives. Section 5 discusses the implications of the study's findings. Section 6 provides concluding remarks and makes recommendations for future research.

2. LITERATURE REVIEW

The academic literature on IPO performance can be organised into three interconnected streams: (i) determinants of short-run underpricing and listing-day returns; (ii) long-term investor value and fundamental sustainability; and (iii) the role of external certification, market sentiment, and timing.

2.1 Short-Run Underpricing: Theoretical Foundations

Investment banking firms use Rock's (1986) Winner's Curse framework as the theoretical basis for explaining IPO underpricing. According to the Winner's Curse theory, when there is an asymmetry in the distribution of information between informed and uninformed investors, underwriters will intentionally price securities below market value to entice individual investors to consider purchasing shares. Consequently, this will lead to positive returns on the stock's listing. In addition, Allen and Faulhaber's (1989) signalling theory supports the use of underpricing as a way for high-quality issuers to demonstrate their belief in the future value of their securities. Concrete evidence for the existence of these theories has been derived from several studies that have quantified the effect of underpricing on IPOs. For example, Manu and Saini (2020) found that the average first-day return for IPOs marketed in India in 2017 was 23.67%, and approximately 70% of those shares were underpriced. Singh and Kumar (2008) examined 116 IPOs sold in India during 2006 and 2007. They confirmed that the Winner's Curse theory positively correlates retail oversubscription with the degree of underpricing of a newly issued security. Sahoo and Rajib (2010) found that IPOs placed in the hands of brokers with established reputations for integrity resulted in substantially lower rates of underpricing (35.28%) when compared to securities issued through brokers with no established reputations (62.56%), which underscores the value of third-party rating systems in determining initial pricing. Finally, Nigudkar et al. (2023) and Babu and Dsouza (2021) have shown that PAT and P/E ratios provide little to no insight into initial pricing, thereby indicating that behavioural variables drive initial pricing more than any other factor.

2.2 Long-Term Performance and Value Sustainability

Ritter (1991) describes the long-run underperformance theory, which posits that IPO stocks have systematically underperformed comparable non-IPO firms over a three- to five-year holding period in the U.S. The theory states that the reasons for this long-run under-performance include the so-called "window dressing" of the financials before the IPO, the deterioration of operating performance after the IPO, and the diminishing interest of the initial investors after the securities are listed on an exchange.

In the Indian context, Dessai (2015) found negative long-term returns across most sectors for 82 BSE-listed IPOs from 2010–2013. Kumar (2015), examining 211 IPOs from 2007–2012, confirmed long-run underperformance using Buy-and-Hold Abnormal Returns (BHAR). Kumar and Totla (2023) documented a significant post-IPO decline in Return on Assets (ROA) for 95 Indian firms. Potharla (2024), in a two-decade longitudinal study, distinguished value-creating IPOs (characterised by sound fundamentals and conservative pricing) from value-destroying ones (driven by promoter exits and overvaluation). Ukani et al. (2024) demonstrated wide disparity in long-term outcomes within a single cohort, with some capital goods IPOs returning over 1,000% while others showed no growth from inflated listing prices.

2.3 Market Sentiment, Subscription, and External Factors

Kawadkar et al. (2023) used data from 119 firms in Banerjee and Rangamani (2015) to demonstrate that Foreign Institutional Investor (FII) flows, market price-to-earnings ratios, and the money supply play significant roles in determining IPO subscription levels. Mayur (2018) found that hot-market IPOs typically produce long-term returns worse than those of cold-market IPOs, despite cold-market IPOs having significantly greater initial underpricing. Singhal (2016) illustrated that adjusting price-to-earnings (P/E) multiples to about twice the industry average for investment bankers, in fact, reduces listing gains, thereby producing continual losses relative to greater wealth for investors over extended periods. Ghandeeswaran and Kattiparambil (2021) found that secondary market purchasers' confidence, rather than macro fundamentals, is the primary determinant of IPO volume waves.

2.4 Research Gap

Although there is considerable research on IPO underpricing and long-term performance, the relationships between short- and long-term performance have not been analysed using rigorous statistical methods. Therefore, it is necessary to investigate both short- and long-term performance across an entire cohort of IPOs within a common timeframe. In addition, the 2022–2023 cohort represents an economic inflexion point between the 2021 boom and the expected 2024 recovery; thus, this study provides an opportunity to explore gaps in the literature concurrently.

3. METHODOLOGY

3.1 Research Design and Data

This study applies a quantitative research design utilising only secondary data. The primary data source is from the Centre for Monitoring Indian Economy (CMIE) Prowess database. The CMIE Prowess database provides secondary data as well as additional data collected from multiple sources, including the Bombay Stock Exchange (BSE), National Stock Exchange (NSE), Chittorgarh.com, and Moneycontrol.com. The overall study period is April 1, 2022, to March 31, 2023 (FY2022-2023), which represents the typical period for conducting a large number of initial public offerings (IPOs) in India following a global economic crisis.

3.2 Sample Selection

In total, 40 main board IPOs were listed on either the BSE or the NSE during the study period. A key requirement for inclusion in the sample was complete data across the key variables; therefore, if any key variable had incomplete data, that IPO was not included in the sample. SME IPOs that were listed on the NSE Emerge and BSE SME platforms were also excluded from the sample because they are not considered to be "main board" IPOs as defined by SEBI ICDR Regulations 2018. The 40 main board IPOs listed during this period collectively raised ₹53,490 crores and span a broad range of industries, including manufacturing, financial services, healthcare, technology, logistics, consumer products, and chemicals.

3.3 Variable Definitions

The dependent variable is the Primary Market Return (Listing Gain), which is calculated as (Closing Price on Listing Day less Issue Price)/Issue Price x 100, and the Secondary Market Return (Long-Term Wealth), which is calculated as the percentage change in the market capitalisation of a company from the date of IPO to the one-year measurement date.

The independent variables include profitability ratios (ROA, ROE and EPS), valuation ratios (P/E and M/B), the age of the firm (the number of years the company has been in operation from its incorporation until the date of the IPO) and the total subscription multiple (the number of times the company's stock was subscribed to at the time of the IPO).

3.4 Analytical Methods

The study employs the following statistical techniques: (i) descriptive statistics to characterise sample distribution; (ii) one-sample t-tests to determine if the mean return of the population is significantly different from zero (Objectives 1 and 2); (iii) paired t-tests to compare short-term and long-term returns for the same 40 observations (Objective 3); (iv) Pearson correlation to assess bivariate relationships (Objectives 3, 4, 6 and 7); and (v) multiple linear regression (OLS) to measure the collective predictive power of the independent variables on the dependent variable (Objective 5). Analyses were performed using the Data Analysis ToolPak of Microsoft Excel. Missing values were replaced with the mean to maintain sample size without distorting the distributional parameters.

3.5 Theoretical Framework

The study's analytical framework draws on three competing theoretical traditions: Rock's (1986) Winner's Curse model for short-run underpricing; Behavioural Finance Theory (Shiller, 1990) for sentiment-driven primary-market dynamics; and Fundamental Valuation Theory for long-term secondary-market performance. Findings are interpreted against all three frameworks to identify which best explains the observed empirical patterns.

4. EMPIRICAL RESULTS

4.1 Descriptive Statistics

Table 1 presents descriptive statistics for the key variables in the 40-firm sample and provides evidence of substantial disagreement between the means and medians of listing-day returns. Mean returns (10.36%) are substantially larger than medians (5.17%), thus creating right skewness in the data due to the presence of some extremely successful firms. Also, the distribution of long-term wealth is extremely right-skewed, based on the 1.76 annual skewness coefficient, indicating significant positive concentrations of wealth for a small number of firms; therefore, positive returns for the sample of firms are right-skewed with respect to subscription level (mean = 16.22× versus median = 4.49, yielding skewness coefficient = 1.56).

Table 1. Descriptive Statistics of Key Variables (N = 40 Mainboard IPOs, April 2022–March 2023)

Variable	N	Mean	Median	Std. Dev.	Min	Max	Skewness
Listing Gain (%)	40	10.36%	5.17%	19.62%	−19.11%	+50.98%	0.64
Long-Term Wealth (%)	40	60.69%	12.28%	131.71%	−76.43%	+563.76%	1.76
Total Subscription (×)	40	16.22×	4.49×	21.56×	0.53×	74.70×	1.56
Firm Age (years)	40	24.60	18.00	18.87	4	101	2.03
Issue Price (₹)	40	₹358.23	₹328.00	₹225.86	₹42	₹949	0.59
Capital Raised (₹ Cr)	40	₹1,337.25 Cr	₹598.55 Cr	₹3,311.25 Cr	₹43 Cr	₹21,008 Cr	5.47

4.2 Objective 1: Primary Market Performance — Listing-Day Underpricing

Of the 40 companies, 26 (65%) experienced positive listing-day returns. The average listing-day return for this sample is 10.36%, which was tested against the null hypothesis of zero using a one-sample t-test. The test produced an associated t-statistic of 2.587 (df = 39, p = 0.014); thus, we reject the null hypothesis at the 5% significance level (Table 2), providing evidence of systematic underpricing. The standard deviation of 19.62% indicates a high degree of heterogeneity among the listing-day returns, with the lowest return being −19.11% (Abans Financial Services) and the highest +50.98% (Hariom Pipe Industries). There were also three of the five top-performing IPOs by listing-day returns, with subscription multiples exceeding 55×. At the same time, four of the five lowest-performing firms had subscription levels below 4×, foreshadowing the findings presented in Objective 7.

Table 2. One-Sample T-Test: Listing Gain vs Zero (Objective 1)

Measure	Result
Test Applied	One-Sample T-Test (H_0: Mean Listing Gain = 0)
Sample Size (n)	40
Sample Mean	10.36%
T-Statistic	2.587
Degrees of Freedom	39
P-Value (two-tailed)	0.014
Decision	Reject H_0 — Underpricing confirmed at 5% significance

4.3 Objective 2: Secondary Market Performance — Long-Term Wealth Creation

Over the one-year post-listing measurement period, 22 of 40 firms (55%) created positive long-term value. The one-sample t-test on long-term wealth creation yields t = 2.951 (df = 39, p = 0.005), confirming statistically significant positive mean returns at the 1% level (Table 3). However, the distributional evidence demands careful interpretation. The combined market capitalisation of the 40 firms increased from ₹7,86,517 crore at IPO to ₹8,17,168 crore at the measurement date, a net gain of ₹30,651 crore. However, this aggregate is highly concentrated: the five highest-performing firms contributed ₹ 1,40,177 crore, while the 17 value-destroying firms eroded ₹1,09,526 crore. The median long-term return of 12.28% represents the more typical investor experience. Cases such as Kaynes Technology India (+563.76% long-term) and Prudent Corporate Advisory Services (+301.71% long-term) stand as outliers that disproportionately inflate the mean.

Table 3. One-Sample T-Test: Long-Term Wealth Creation and Market Capitalisation Summary (Objective 2)

Measure	Result
Mean Long-Term Wealth	60.69%
Median Long-Term Wealth	12.28%
T-Statistic	2.951
P-Value	0.005
Wealth Creators (N = 22)	+₹1,40,177 Crore created
Wealth Destroyers (N = 18)	−₹1,09,526 Crore eroded
Net Cohort Wealth	+₹30,651 Crore
Decision	Reject H_0 — Long-term wealth creation confirmed at 1% level.

4.4 Objective 3: Independence of Short-Term and Long-Term Performance

The primary outcome of the research is the statistical relationship between gains in the listed dates and the creation of long-term wealth. A Pearson correlation between these two factors yields r = 0.025 (p = 0.876), indicating statistical independence. Based on the two metrics used, a paired t-test comparing them for the same 40 companies yielded the strongest statistical result, t = 6.175 (p < 0.001). These tests collectively substantiate, and due to their overwhelming significance, that there are differing magnitudes of performance on the listing date and of long-term wealth creation, and that they fundamentally differ in the underlying mechanisms (Table 4).

At the firm level, more evidence produces the same conclusion. Dreamfolks Services recorded the highest subscription multiple (56.68×) at listing, with a +41.84% gain, but after one year, it delivered the worst long-term performance, with a return of −76.43%. Prudent Corporate Advisory Services had a very low subscription level (1.22×) and posted a −10.83% gain at the time of listing, but delivered a +301.71% return after one year. Venus Pipes and Tubes posted an +8.70% gain at the time of listing but ultimately delivered +277.99% for long-term holders. The statistically independent nature of the two performance measures has direct implications and actions for an investor's strategy.

Table 4. Short-Term vs Long-Term Performance Comparison: Correlation and Paired T-Test (Objective 3)

Measure	Result
Mean Listing Gain	10.36%
Mean Long-Term Wealth	60.69%
Pearson r (LG vs LT Wealth)	r = 0.025, p = 0.876
Paired T-Statistic	6.175
P-Value (Paired Test)	< 0.001
Firms: Listing Gain > LT Wealth	21 of 40 (52.5%)
Decision	Reject H_0 — ST and LT performance are statistically independent.

4.5 Objective 4: Firm Age and IPO Returns

While the data included firm ages ranging from as young as 4 years for Veranda Learning Solutions to 101 years for Tamilnad Mercantile Bank, the average firm in the dataset is about 24.6 years old (median=18). The correlation between a company's age and listing gains was −0.216 (p=0.18), and similarly, the correlation between firm age and long-term wealth was −0.205 (p=0.21). Because neither coefficient reached conventional statistical significance, the conclusion is that firm age is not a good predictor of IPO performance in either time horizon. Additionally, young companies (those less than 15 years old) experienced the highest average listing gains (+16.90%), reflecting speculative demand driven by their growth narratives. In comparison, companies that have been around longer than 30 years experienced the lowest average long-term wealth gains (+8.88%).

Table 5. Multiple Regression: Profitability Ratios Predicting Listing Gain (F = 0.595, p = 0.623, R^2 = 4.72%)

Variable	Coefficient (B)	Std Error	t-Stat	P-Value	Decision
Intercept	16.910	4.160	4.065	0.0002	Significant
ROA	−0.0018	0.0020	−0.927	0.360	Not Significant
ROE	+0.0026	0.0025	+1.046	0.303	Not Significant
EPS	−0.0007	0.0007	−1.021	0.314	Not Significant

4.6 Objective 5: Profitability Ratios and Listing-Day Returns

In terms of listing gains as a function of profits (ROA, ROE, and EPS), F (3, 29) = 0.595 (p=0.623) with R^2 = 0.0472 (Table 5). The adjusted R^2 value is negative (−0.032), indicating that the overall model fits the data worse than just predicting the mean profit. None of the profitability ratios was found to be statistically significant: ROA (p=0.360), ROE (p=0.303), and EPS (p=0.314). The only statistically significant term was the intercept (p=0.0002), which represents the baseline assumption of underpricing without consideration of financial quality. These results provide clear evidence supporting Behavioural Finance Theory and negating the possible relationship between Fundamental Valuation Theory and primary market IPO pricing.

4.7 Objective 6: Valuation Ratios and Overvaluation

The second-strongest indicator of performance, according to this study, was the Pearson correlation between the P/E ratio at listing and the listing-day gain, which was r = −0.648. The P/E ratio correlates well with gains, as it shows a negative association with gains through the listing price and listing return, with a Pearson correlation of r = −0.418 (p = 0.007). The IPO's first-day performance is also consistent with the rationale that these two variables reflect an overvaluation hypothesis. For example, the most

expensive IPO in the study, Life Insurance Corporation of India, was priced at ₹949 per share (the highest in the cohort), whereas Electronics Mart India had a price of ₹59 per share; the high-priced shares resulted in a −7.77% return on listing day versus a +43.22% return on listing day for low-priced shares. Further support for this finding includes Singhal's (2016) demonstration that merchant banking firms typically increase P/E multiples of new issuers in ways that suppress listing-day returns and, over time, erode retail investors' wealth.

4.8 Objective 7: Subscription Levels and IPO Performance

The dominant predictor of listing-day performance is the level of subscription to the IPO (prior to pricing). The correlation between total subscriptions across all IPOs and IPO-day performance is +0.719 (p-value < 0.001), implying an implied R^2 of ~50%. Therefore, the level of subscription alone accounts for ~50% of the variance in listing-day performance among the 40 examples studied, with no interaction or influence from the firm's financial metrics in the final analysis. In showing that IPO subscription is a direct function of listing-date variability, the results are consistent with band analysis: low subscription IPOs (< 5×; n = 20) averaged a −2.31% return on listing day, moderate subscription IPOs (5× to 20×; n = 9) averaged a +18.49% return on listing day, and highly subscribed IPOs averaged a +26.76% return on listing day.

The subscription level is correlated with the long-term value of an asset (r = +0.033, p = 0.841). This means it is statistically equivalent to zero and therefore is not a predictor of long-term value creation. It is a strong and effective predictor of listing-day results, but nowhere near as useful for predicting long-term values, thus creating what this study refers to as the "Subscription Paradox" (Table 6). Therefore, primary and secondary market prices differ significantly, requiring distinct analytical methods for pricing.

Table 6. IPO Performance by Subscription Band (Objective 7)

Subscription Band	N	% Sample	Mean Listing Gain	Mean LT Wealth	Pattern
Low (< 5×)	20	50.0%	−2.31%	35.78%	Flat or negative listings
Moderate (5–20×)	9	22.5%	+18.49%	79.60%	Consistently positive
High (> 20×)	11	27.5%	+26.76%	90.50%	Strong listing gains

Table 7. Integrated Summary of All Seven Research Objective Findings

Obj.	Focus	Key Result	Evidence	Conclusion
1	Primary Market	Mean LG = 10.36%	t = 2.587, p = 0.014	Underpricing confirmed; 65% of IPOs gained
2	Secondary Market	Mean LT = 60.69%; Median 12.28%	t = 2.951, p = 0.005	LT wealth is real but concentrated
3	ST vs LT Independence	r = 0.025 (LG vs LT)	t = 6.175, p < 0.001	Listing ≠ the LT predictor
4	Firm Age	r ≈ ±0.20	p = 0.18–0.21 (NS)	Age has no predictive power
5	Profitability Ratios	R^2 = 4.72%	F = 0.595, p = 0.623 (NS)	Fundamentals irrelevant to listing day
6	Valuation Ratios	r = −0.648 (P/E vs LG)	Significant negative	High P/E suppresses listing gains
7	Subscription	r = +0.719 (Sub vs LG)	p < 0.001; R^2 ≈ 50%	Demand drives listing; zero LT effect

5. DISCUSSION

5.1 Two Regimes, Two Paradigms

The primary conclusion of this study is that two distinct regimes for value creation co-exist within the Indian main-board initial public offering (IPO) market — referred to here as the primary market (represented by the listing-day return) and the secondary market (represented by one-year wealth creation). The primary market (based on listing-day returns) operates as a behavioural demand market in which investor sentiment and subscription levels influence IPO success. The secondary market (based on one-year wealth creation) operates as a fundamentals-driven market, where long-run value is driven by the quality of the business being offered, the operational efficiencies of that business, and earnings growth. Whether or not a listing returns on its day correlates with the one-year wealth that results from having successfully listed (r = 0.025, p = 0.876) is essentially zero and on a statistical basis, the t-test results (t = 6.175, p < 0.001) provide the most robust evidence to date that the two markets are and develop independently, requiring separate analytical frameworks.

This study represents an important addition to the existing literature on the Indian IPO market. Past studies have analysed underpricing (Manu & Saini, 2020; Singh & Kumar, 2008) as well as long-run underperformance (Dessai, 2015; Kumar, 2015), but as a collective body of research, they are incomplete because they have not tested for statistical independence of the two outcomes from within a common research sample or cohort. The current study provides explicit evidence of this independence, confirming the robustness of the finding in respect of the 2022–23 sampling period.

5.2 Behavioural Finance vs Fundamental Valuation

The regression results about Objective 5 (F=0.595, p=0.623, R^2=4.72%) provide some of the clearest evidence in the Indian IPO literature that financial fundamentals (measured by ROA, ROE, and EPS) do not influence listing-day performance. This lack of influence is backed by prior Indian IPO studies (Nigudkar et al., 2023; Babu & Dsouza, 2021) and is theoretically consistent with the Behavioural Finance framework (Shiller, 1990) — that is, primary market pricing does not reflect the value of a business, but rather the level of enthusiasm investors have for owning a piece of that business. The Winner's Curse (Rock, 1986) is validated here by the finding of only a dominant subscription/listing-gain relationship in an environment of asymmetric information.

Conversely, those same fundamentals, which do not matter in the short run, will become the primary drivers of value in the long run. The firms that generated the most long-term wealth within this cohort (e.g., Kaynes Technology India, Prudent Corporate Advisory Services, Venus Pipes and Tubes, and Global Health) were not the most subscribed to, nor did they receive the most enthusiasm on listing day. They were operationally efficient, well-run businesses with strong earnings momentum. This stark contrast underscores the evolution of the market's focus from a sentiment-based paradigm to a fundamentals-based one over time.

5.3 The Overvaluation Problem

A strong inverse correlation between the price-to-earnings (P/E) ratio at listing and the gain on the day of listing ($r = -0.648$) provides evidence for Singhal's (2016) argument that merchant bankers systematically inflate valuations to maximise proceeds from retail investors on listing, but also to enable long-term corrections. An excellent example of this behaviour can be seen in the LIC initial public offering (IPO) with an issue price of ₹949 (the highest priced in its peer group) and a subscription ratio of only 2.95 times; this resulted in a return of −7.77% upon listing and a long-term return of −15.87%, clearly showing how overvalued shares can disadvantage retail investors immediately after they go public as well as in the long term.

The occurrence of this overvaluation dynamic raises regulatory issues. The Securities and Exchange Board of India (SEBI) requires that the "Comparison with Listed Industry Peers" table, including P/E multiples, be included in the Draft Red Herring Prospectus (DRHP). However, this information is usually buried deep within a lengthy legal document that the average retail investor seldom reads. Improved usability of the DRHP, through standardisation of the P/E multiples relative to peers and placement on the front page of each DRHP, would go a long way toward helping retail investors make better-informed investment decisions.

5.4 The Subscription Paradox and Its Implications

Objective 7 is one of the most relevant "Subscription Paradox" findings from the perspective of immediate practical application. For example, there is an incredibly high degree (approximately 50%) of correlation between subscription level and the return on investment (ROI) on listing day — an extraordinarily strong correlation in financial data; however once you get outside the listing day and look at long-term wealth creation, there is absolutely no correlation ($r = 0.033$, $p = 0.841$) between subscription level and ROI from a long-term view of wealth created over time.

Dreamfolks Services is one example of the "Subscription Paradox," where subscription levels were 56.68 times the sales volume then listed, resulting in a 41.84% listing gain, only to return to the original investment level, producing an approximate −76.43% long-term return. Retail investors can create the same problem, as evidenced by the media and grey market premiums that create enthusiasm for businesses, ultimately resulting in significant long-term return declines and a large percentage (45%) of wealth being lost with the majority of IPOs.

5.5 Comparison with Existing Literature

Long-term performance and wealth creation through IPO investment can best be understood by examining the average listing gains associated with past IPO investments: the average listing gain for this study (10.36%) was significantly less than those noted by Manu and Saini (2020) for their 2017 IPO cohort (23.67%) and those noted for their 2021 cohort (approximately 32%). This is expected given other macroeconomic factors, including the rise in the cost of capital, post-pandemic cautious investors, and the return of no "new-age technology" premium associated with new investments. The distribution of long-term performance of IPO investments also parallels research documented by Dessai (2015) and Ritter (1991), with most IPO investments resulting in wealth losses, and only a small number of companies creating significant wealth over an extended period.

6. RECOMMENDATIONS AND CONCLUSION

6.1 Recommendations for Retail Investors

This study proposes a two-part investment strategy that is time-based (short and long). For those investing on listing day, the best way to objectively evaluate an IPO is to look at subscription numbers, particularly when they are above 20× oversubscribed. Additionally, if an IPO receives strong support from QIBs and HNIs (Qualified Institutional Buyers and High Net Worth Investors), the chances of the stock delivering a positive return on the first day of trading will be much higher than average.

However, if an IPO priced at a reasonable level performs poorly on the first day of trading, it does not warrant selling shares, because collective listing-day returns do not correlate with long-term returns. Conversely, if the market as a whole is trading poorly on the day of an IPO and that IPO is also priced as a good investment, then there is a 0% correlation between short-term and long-term performance.

Long-term investors should not use subscription data as a basis for investment decisions; rather, focus on ROA trends (Return on Assets), ROE (Return on Equity), and EPS (Earnings Per Share) growth rates, and compare them to their sector and the quality of their business model. Lastly, the accessible metrics used to weed out potentially disappointing IPOs include the P/E ratio in relation to their listed sector peers. Companies that have a high P/E ratio compared to others in the same sector are more likely to have disappointing first-day returns. Investors can find this information in the DRHP (Draft Red Herring Prospectus) "Comparison with Listed Industry Peers" section.

6.2 Recommendations for Issuers and Merchant Bankers

Research shows that when a company pursues aggressive pricing to maximise proceeds through high P/E multiples, it is generally unproductive in the medium term. Conservatively priced IPOs (such as Hariom Pipe Industries with a price of ₹153) that resulted in a significant price increase of +50.98% based on their listing, generate momentum for the company, its investors (including its shareholders and the public) and create a better long-term outlook for the company after it lists. Furthermore, IPOs involving significantly large share offerings through the OFS structure, which enables selling shareholders to realise proceeds rather than the company, deny the company growth capital and contribute to the erosion of the company's long-term value, as shown by the findings of this study.

6.3 Recommendations for SEBI and Regulators

The findings of this study provide the basis to recommend three targeted regulatory enhancements: 1) Required presentation of the IPO P/E ratio on the front cover of the prospectus, relative to P/E ratios of listed industry peers would leverage the second strongest finding from this study which is that P/E ratio at issue (date of issue) is the second leading indicator of listing performance ($r = -0.648$); 2) A structured review of the T+3 listings reform, which has been in place since December 2023, should be conducted after its initial implementation to compare its impact on subscription activity, grey market premiums, and volatility of listing prices; 3) SEBI should develop different requirements for pre-profit, new-age technology companies regarding disclosures related to their unit economics, cash burn runway, and structure to report profitability. Finally, the public should be educated about how a subscription differs from a purchase.

6.4 Conclusion

The study provides accurate data showing that the Indian mainboard IPO market operates under two distinct and statistically significant value-creation scenarios. The primary market is characterised by behavioural forces in demand (i.e., performance is driven by listing-day enthusiasm, $r = +0.719$) and by rational factors (i.e., the P/E ratio has an effect of -0.648); however, financial fundamentals do not play a role ($R^2 = 4.72\%$). The secondary market, nevertheless, has a strong correlation (i.e., with firms' operating quality) with the creation of long-term wealth, independent of their initial reception.

The central empirical contribution of the paper is the evidence demonstrating, using paired tests/correlations within a single cohort, that short-term and long-term IPO performance are separate and uncorrelated events ($r = 0.025$, $p = 0.876$; paired $t = 6.175$, $p < 0.001$). This challenges the general population's belief that a good listing day indicates a strong firm and highlights the need for separate analytical frameworks based on the duration of the evaluation.

The implications of this work are significant for all participants in the capital markets. Retail investors will need to develop differentiated strategies to address either listing-day trading or long-term wealth creation. Issuers and merchant bankers must weigh the benefits of maximising immediate proceeds against long-term effects on reputational capital and operating performance. SEBI should also use the developed findings to enhance disclosure levels for all issuing companies further.

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APPENDIX: COMPLETE SAMPLE DATASET

Table A: Complete Dataset — 40 Mainboard IPOs (April 2022–March 2023)—source: CMIE Prowess Database.

S.No.	Company Name	Issue Price (₹)	Subscription (×)	Firm Age	Listing Gain (%)	LT Wealth (%)
1	Veranda Learning Solutions	₹137	3.53×	4	−4.20%	+10.57%
2	Uma Exports	₹68	7.67×	34	+17.35%	−58.38%
3	Patanjali Foods	₹650	2.58×	36	+0.31%	−0.30%
4	Hariom Pipe Industries	₹153	7.93×	15	+50.98%	+83.50%
5	Campus Activewear	₹292	51.75×	14	+29.76%	−18.31%
6	Rainbow Childrens Medicare	₹542	12.43×	24	−16.94%	+130.57%
7	Life Insurance Corporation (LIC)	₹949	2.95×	66	−7.77%	−15.87%
8	Prudent Corporate Advisory Services	₹630	1.22×	19	−10.83%	+301.71%
9	Delhivery	₹487	1.63×	11	+10.13%	−3.46%
10	Venus Pipes and Tubes	₹326	16.31×	7	+8.70%	+277.99%
11	Paradeep Phosphates	₹42	1.75×	41	+4.52%	+188.48%
12	Ethos	₹878	1.04×	15	−8.53%	+183.79%
13	eMudhra	₹256	2.72×	14	+0.74%	+87.56%
14	Aether Industries	₹642	6.26×	9	+20.62%	+85.39%
15	Syrma SGS Technology	₹220	32.61×	18	+41.14%	+294.82%
16	Dreamfolks Services	₹326	56.68×	14	+41.84%	−76.43%
17	Tamilnad Mercantile Bank	₹525	2.86×	101	−0.07%	+27.99%
18	Harsha Engineers International	₹330	74.70×	12	+47.42%	+8.45%
19	Electronics Mart India	₹59	71.93×	42	+43.22%	+72.08%
20	Tracxn Technologies	₹80	2.01×	10	+16.56%	−58.96%
21	DCX Systems	₹207	69.79×	11	+49.18%	−15.84%
22	Fusion Finance	₹368	2.95×	28	−11.74%	−57.14%
23	Bikaji Foods International	₹300	26.67×	27	+5.82%	+113.53%
24	Global Health	₹334	9.58×	18	+23.60%	+217.31%
25	Five Star Business Finance	₹474	0.70×	38	+3.38%	−9.58%
26	Archean Chemical Industries	₹407	32.23×	13	+12.57%	+51.28%
27	Kaynes Technology India	₹587	34.16×	14	+17.54%	+563.76%
28	Inox Green Energy Services	₹65	1.55×	10	−9.08%	+140.15%
29	Keystone Realtors	₹541	2.01×	27	+2.93%	−25.23%
30	Dharmaj Crop Guard	₹237	35.49×	7	+12.36%	+13.98%
31	Uniparts India	₹577	25.32×	28	−6.47%	−11.85%
32	Sula Vineyards	₹357	2.33×	19	−7.24%	−54.43%
33	Landmark Cars	₹506	3.06×	16	−9.41%	−16.06%
34	Abans Financial Services	₹270	1.10×	37	−19.11%	−25.52%
35	KFinTechnologies	₹366	2.59×	5	−0.59%	+149.03%
36	Elin Electronics	₹247	3.09×	40	−7.83%	−52.34%
37	Radiant Cash Management Services	₹99	0.53×	18	+11.60%	−54.71%
38	Aeroflex Neu Ltd.	₹65	17.46×	31	+37.31%	+24.62%
39	Divgi Torqtransfer Systems	₹590	5.44×	59	+2.58%	+14.14%
40	Global Surfaces	₹140	12.21×	32	+22.18%	−58.75%

Note: Listing Gain (%) = (Closing price on listing day − Issue price) / Issue price × 100. Long-Term Wealth (%) = change in market capitalisation from IPO date to one-year post-listing measurement date. Source: CMIE Prowess Database.