International Journal of Management and Sustainability Practices
Vol. 1, Issue 2 (Apr–June 2026): Pages 70–77
e-ISSN (Online): 3139-5449
Website: https://ijmsp.com/

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

Abhinav Srivastava, Ankita Srivastava*
School of Management Studies, National Forensic Sciences University, Gandhinagar, Gujarat, India
**Corresponding Author Email: ankita.srivastava@nfsu.ac.in*

Article Information

Submission History:

Received: 19 June, 2026
Revised: 25 June, 2026
Published: 30 June, 2026

Keywords:

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

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 using secondary data and were analysed using 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 sample t-test, the researchers confirm that there is a high level of significance regarding 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 amount gained on the first trading day ($r = -0.648$) provides corroboration for the overvaluation hypothesis. There is no statistically significant predictive power of the time in business on either time period. Furthermore, the results tend to suggest that Behavioural Finance Theory has much greater relevance than Fundamental Valuation Theory for the primary market; however, these results do indicate that long-term value is generated through 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).

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 & 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 & practical question of how IPOs create or destroy value for investors at the time of listing and once held for longer periods has become an important concern for both academics and practitioners.

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

Even though there has been a huge amount of research completed on each phenomenon separately, very little has been done to consider the statistical relationship (or independence) of 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 are a signal of quality and associated future performance from the majority of investors. However, so far, there have been no rigorous statistical evaluations of this relationship in the Indian post-COVID market. This study seeks to fill that gap.
The sample for this research consists of 40 mainboard IPOs that have been listed in 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 in which to conduct research into determining 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 organized in a manner to facilitate the 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 associated with the seven objectives of the study. Section 5 discusses the implications of the findings of the study. 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 the phenomenon of 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 when it lists. 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 the average first-day return was 23.67% for the IPOs marketed in India in 2017, and approximately 70% of those shares were underpriced. Singh and Kumar (2008) examined 116 IPOs sold in India during the period of 2006 and 2007 and confirmed that the Winner's Curse theory positively correlates the level of retail oversubscription to 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 claims that IPO stocks have systematically underperformed their 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) considered 119 firms from 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 the level of subscriptions for IPOs. Mayur (2018) discovered that hot markets typically produce long-term returns worse than cold-market IPOs despite the cold market having significantly greater initial underpricing. Singhal (2016) illustrated that adjusting price-to-earnings (P/E) multiples at about twice the industry average level for investment bankers, in fact, causes a reduction in listing gains, thereby producing continual loss to the 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-term and long-term performance have not been analyzed with rigorous statistical methods. Therefore, it is necessary to conduct an investigation of both short-term and long-term performance for 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 2024 expected recovery; thus, this study provides an opportunity to explore both 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 normal period of time for conducting a large number of initial public offerings (IPO) in India after a global economic crisis has occurred.

3.2. Sample Selection

In total, there were 40 main board IPOs that were listed on either the BSE or the NSE during the study period. A key requirement for inclusion within the sample was complete data availability across the key variables; therefore, if any of the key variables had incomplete data, then 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 represent a broad range of industries such as 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 shows descriptive statistics for the key variables in the 40-firm sample and provides evidence of substantial disagreement between means and medians on 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% is indicative of

a high degree of heterogeneity amongst the diverse listing day returns, with the lowest listing day return being −19.11% (Abans Financial Services) and the highest being +50.98% (Hariom Pipe Industries). There were also three of the five top-performing IPOs in terms of listing-day returns that had subscription multiples in excess of 55×, while four of the five lowest-performing firms had subscription levels below 4×, thus 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. Yet this aggregate is dramatically 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 focuses on the statistical relationship between the listed dates' gain and the creation of long-term wealth. A Pearson correlation between these two factors yields r = 0.025 (p = 0.876), representing independence statistically from each other. Based on the two metrics used, a paired t-test comparing the two metrics for the same 40 companies produced the strongest statistical test at 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 the creation of wealth in the long-term, and additionally, fundamentally differ in the underlying mechanisms (Table 4).

At the firm level, more evidence produces the same conclusion. Dreamfolks Services produced the highest level of subscription (56.68×) with a +41.84% gain at the time of listing, but after one year, it produced the worst long-term performance with a return of −76.43%. Prudent Corporate Advisory Services had a very low level of subscription (1.22×) and produced a −10.83% gain at the time of listing, but provided a +301.71% return after one year. Venus Pipes and Tubes produced +8.70% gain at the time of listing but ultimately produced +277.99% for long-term holders. The statistically independent nature of the two measures of performance 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 a range in firm ages from as young as 4 years for Veranda Learning Solutions to 101 years of age for Tamilnad Mercantile Bank, the average firm in the dataset is about 24.6 years old (median=18). The correlation between the age of a company and the listing gain yielded a value of −0.216 (p=0.18), and similarly, the correlation between firm age and long-term wealth produced a value of −0.205 (p=0.21). Because neither coefficient reached conventional statistical significance, the conclusion is that firm age does not serve as a good predictor of the performance of an IPO in either time horizon. Additionally, young companies (those less than 15 years old) experienced the highest average listing gains (+16.90%), reflecting the speculative demand surrounding their growth narratives, while companies that have been around longer than 30 years experienced the lowest average long-term wealth (+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 were found 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 is the base assumption of underpricing without the 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 P/E ratio at listing and listing-day gain, which is r = −0.648. The P/E ratio correlates well with gains since it shares a negative association with gains through the listing price and listing return with the Pearson correlation of r = −0.418 (p = 0.007). The performance of the IPO on its first day is also consistent with the rationale that these two variables represent 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 of total subscriptions of all IPOs to IPO-day performance is +0.719, with a p-value of <0.001, resulting in an implied R^2 value of ~50%. Therefore, the level of subscription alone accounts for ~50% of the variance in listing-day performance amongst the 40 examples studied, with no interaction or influence from the financial metrics of the firm included 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 has a correlation of r = +0.033 (p = 0.841) with the long-term value of an asset. 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 are completely different, requiring different 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 real but concentrated
3	ST vs LT Independence	r = 0.025 (LG vs LT)	t = 6.175, p < 0.001	Listing ≠ LT predictor

4	Firm Age	$r \approx \pm 0.20$	$p = 0.18–0.21$ (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)	$p < 0.001$; $R^2 \approx 50\%$	Demand drives listing; zero LT effect

5. Discussion

5.1. Two Regimes, Two Paradigms

The primary conclusion of this study is that two different 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 listing-day return) and the secondary market (represented by the one-year wealth creation). The primary market (based on listing-day returns) operates as a behavioural demand market where investor sentiment and subscription levels influence the success of IPOs. 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, operational efficiencies of that business and growth in earnings. 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, through the finding of only a dominant subscription/listing gain relationship, as existing in an environment with 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 firms that were the most subscribed to, nor the firms that received the most enthusiasm on the 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 paradigm, as time elapses.

5.3. The Overvaluation Problem

A strong inverse correlation between price-to-earnings (P/E) ratio at listing and gain on the day of listing ($r = -0.648$) provides evidence of Singhal's (2016) argument that merchant bankers inflate valuations systematically in order to maximise proceeds over 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 be included in the Draft Red Herring Prospectus (DRHP), including the P/E multiples, although this information is usually found deep inside 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 when looked at 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 and subsequently produced a listing gain of 41.84% only to return to the original investment level to produce an approximate −76.43% long-term return. Retail investors can create the same problem, as evidenced by the situation created by the media and grey market premiums, creating enthusiasm about businesses that ultimately result 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, as well as 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 the research documented by Dessai (2015) and Ritter (1991), with most IPO investments resulting in a loss of wealth, with only a small number of companies creating significant wealth over an extended period of time.

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). In the case of those investing on a listing day, the best way to objectively evaluate an IPO is by looking at subscription numbers, particularly when they are above 20× over-subscribed. Additionally, if an IPO receives a lot of QIB and HNI (Qualified Institutional Investor and High Net Worth Investor) support, then the chances of the stock providing a positive return on the first day of trading will be much greater than average.

However, if an IPO priced at a reasonable price will have poor performance on the first day of trading, then it does not warrant selling shares because collectively 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.

For longer-term investors, they should not use subscription data as a basis for investment decisions; rather, focus on ROA trends (Return on Assets), ROE (Return on Equity), EPS (Earnings Per Share) growth rates, comparisons to their sector and quality of 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 high offerings of shares for sale through the OFS structure, which enables selling shareholders to gain proceeds rather than the company, deny the company growth capital and contribute to the erosion of the long-term value of the company, 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 regarding how a subscription is different from a purchase.

6.4. Conclusion

The study offers accurate data showing that the Indian mainboard IPO market functions on two separate and statistically significant value creation situations. The primary market is characterized by behavioural forces in demand (i.e., performance is driven by listing-day enthusiasm, $r = +0.719$) and limited by rationale (i.e., 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., operating quality of firms) with creating 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 length of time being evaluated.

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 findings developed to further enhance disclosure levels for all issuing companies.

Disclosure Statement: No potential conflict of interest was reported by the authors.
Funding: The author(s) received no financial support for the research, authorship, and/or publication of this article.

References

[1]. Agarwal, S. (2016). FII influence on capital markets and IPO performance: An empirical analysis of 308 Indian IPOs (2006–2011). Indian Journal of Finance, 10(4), 45–58.

[2]. Babu, G., & Dsouza, C. (2021). Determinants of IPO performance: A qualitative analysis of 52 IPOs listed between 2018 and 2020. Journal of Commerce and Management Thought, 12(2), 134–151.

[3]. Banerjee, R., & Rangamani, S. (2015). Determinants of investor demand in Indian IPOs: A multivariate regression analysis of 171 firms (2007–2013). SEBI Journal, 9(3), 12–29.

[4]. Bansal, R., & Khanna, A. (2013). IPO grading, retail investor demand, and underpricing: Logit and log-linear regression evidence from 142 graded IPOs. Finance India, 27(1), 217–242.

[5]. Bhullar, P., & Sahoo, P. (2023). Macroeconomic determinants of IPO activity in India: VAR model analysis (2011–2020). International Journal of Finance & Banking Studies, 12(1), 1–18.

[6]. Deb, S. S., & Marisetty, V. B. (2010). Information content of IPO grading. Journal of Banking & Finance, 34(9), 2294–2305.

[7]. Dessai, P. S. (2015). Long-run performance of IPOs: ANOVA and mean difference test evidence from 82 BSE-listed IPOs (2010–2013). Indian Journal of Finance, 9(11), 20–34.

[8]. Ghandeeswaran, R., & Kattiparambil, S. (2021). Determinants of IPO volume in India: Poisson and negative binomial regression analysis. Indian Economic Review, 56(1), 89–108.

[9]. Ghosh, S. (2004). Boom and slump periods in the Indian IPO market. Reserve Bank of India Occasional Papers, 25(2), 1–18.

[10]. Katti, S., Phani, B. V., & Nadig, A. (2023). Risk disclosure in IPO prospectuses and long-term performance: Evidence from Indian mainboard IPOs. International Journal of Finance & Economics, 28(1), 768–791.

[11]. Kawadkar, S., et al. (2023). Issue price, oversubscription, and initial returns: Descriptive and correlation analysis of 119 IPOs (2016–2021). Journal of Finance and Accountancy, 31, 1–12.

[12]. Kumar, M., & Kumar, A. (2013). Long-term performance of Indian IPOs: Market-adjusted abnormal return and wealth relative analysis of 20 IPOs (2009–2011). Finance India, 27(3), 887–904.

[13]. Kumar, P. (2015). Long-run underperformance of Indian IPOs: OLS regression and BHAR analysis of 211 IPOs (2007–2012). Vikalpa, 40(1), 23–38.

[14]. Kumar, S., & Totla, V. (2023). Pre-IPO and post-IPO operating performance in India: Wilcoxon matched-pairs and multivariate regression analysis of 95 firms. Journal of Emerging Market Finance, 22(1), 112–141.

[15]. Manu, K. S., & Saini, G. (2020). Initial public offerings and primary market performance: An analysis of 2017 IPO cohort returns. Indian Journal of Finance, 14(9), 8–24.

[16]. Marisetty, V. B., & Subrahmanyam, M. G. (2005). Group affiliation and the performance of initial public offerings in the Indian stock market. Pacific-Basin Finance Journal, 18(5), 441–456.

[17]. Mayur, M. (2018). Hot and cold market IPOs in India: Price performance and the timing of share issuances. IIMB Management Review, 30(2), 136–148.

[18]. Mayur, M., & Kumar, M. (2013). The dynamics of going public: Panel probit and Wilcoxon signed-rank test evidence from 521 Indian firms. Journal of Indian Business Research, 5(2), 78–95.

[19]. Nigudkar, A., Bhatt, D., & Shah, P. (2023). Determinants of IPO underpricing in India: Evidence from mainboard listings. International Journal of Business and Management Research, 11(2), 22–36.

[20]. Potharla, S. (2024). Two decades of Indian mainboard IPOs: Patterns in underpricing, oversubscription, and long-term value erosion. Finance Research Letters, 61, 104978.

[21]. Pruthy, S., & Kumar, S. (2013). After-market performance of Indian IPOs. Paradigm, 17(1–2), 1–10.

[22]. Ritter, J. R. (1991). The long-run performance of initial public offerings. Journal of Finance, 46(1), 3–27.

[23]. Rock, K. (1986). Why new issues are underpriced. Journal of Financial Economics, 15(1–2), 187–212.

[24]. Sahoo, S., & Rajib, P. (2010). After-market pricing performance of initial public offerings: Indian IPO market 2002–2006. Vikalpa, 35(4), 27–44.

[25]. Singhal, A. (2016). P/E ratio-based overpricing and long-term returns of Indian IPOs (2001–2011). Accounting and Finance Research, 5(3), 28–38.

[26]. Singh, A. K., & Kumar, A. (2008). Analysing the determinants of IPO underpricing: Winner's Curse model evidence from 116 Indian IPOs (2006–2007). Finance India, 22(4), 1295–1316.

[27]. Ukani, V., Makwana, M., & Vidani, A. (2024). Post-IPO market performance and valuation dynamics: Evidence from the Indian emerging economy. Managerial Finance, 50(1), 89–112.

[28]. Vora, S. (2018). Price performance of newly listed companies on the first day of trading: Secondary data analysis. Journal of Business and Management, 20(1), 29–35.