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ANALYSIS OF IPOS UNDERPRICING: EVIDENCE FROM BOMBAY STOCK EXCHANGE

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ABSTRACT

Underpricing of IPOs has been contemplated as a prevalent phenomenon across the world. When companies go public, the equity they sell in as initial public offering tends to be underpriced, resulting in a substantial price jump on the first-day trading. Nevertheless, underpricing an IPO results in "money left on the table"- lost capital that could have been projecting for the company had the stock been offered at a higher price. The main purpose of this paper is to investigate the difference in the firm-specific factors that significantly affect the underpricing of IPOs for the period of 2000-2011. Furthermore, it studies if there is any statistically significant difference in the pricing mechanism and underpricing. The research is established on an empirical study. The sample for the study consists of 320 IPOs. All the market & firm specific variables are regressed against the underpricing. Multiple regressions are used to find which variables statistically consequential in affecting underpricing. The factors embodied in the study are pricing mechanism (book built or fixed price option), subscription rate, and issue size. A two-way ANOVA is done to recognize if there is a statistically significant difference in the underpricing and pricing mechanisms. All the variables are regressed opposingly the underpricing. We found R square 37.6 % and adjusted R square 36%. However, Durbin-Watson imparted 1.633 value of this regression model. Subscription rate & issue size was found to be significant in affecting the underpricing. There is negative relationship amid issue size and level of underpricing, however, positive relationship in subscription rate and underpricing. Nevertheless, there is no significant difference between underpricing and pricing mechanism. The study provides useful insights into which market and firm specific variables are prominent in determining the extent of underpricing of IPOs. The study has more consequential implications for investors who subscribe to different IPOs for listing day gain as this study would benefit them in understanding which type of firms are more likely to underpriced.

KEYWORDS

IPO, Underpricing, Market related variables, pricing mechanism, Firm-specific factors.

1.0 INTRODUCTION

The decision to go public, or make an initial public offering (IPO) of equity, symbolizes an important landmark in a firm's life cycle. There are several motives for a company to go public. **First**, the business can raise capital at a lower cost. The money raised can be use to finance investments for future growth of the company or acquiring additional business. **Another** reason for a company to go public is that selling shares on the stock market offers more liquidity to the existing shareholders. The shareholders of a private firm often have a large share of their wealth invested in the company. By turning to the stock market, the entrepreneur and existing shareholders have the opportunity to turn their investment into cash and diversify their investments. **Third** rationale is that an IPO brings the firm into the spotlight of other companies and increases the chance of potential mergers and acquisitions.

A well-functioning IPO market provides exit options for stakeholders in young firms, access to low cost capital for growing firms, and greater access to capital for future expansion of large firms. Flow of capital to firms can stimulate growth in an economy. Consequently, regulators are interested in mechanisms that facilitate better functioning IPO markets. India has a relatively mature capital market, with a long history of uninterrupted operations even across the World Wars.

In 1999, investment banks were allowed to use a version of book building as a mechanism for bringing IPOs to the Indian capital market. Book building refers to the process of generating, capturing, and recording investor demand for shares during an IPO in order to support efficient price discovery. The empirical evidence on the performance of private and government firms is also inconclusive. ***(Megginson W. N., 1994)*** Suggested that privatized firm perform better than their counterparts. On the other hands***, (Kay, 1986)*** provided evidence which is supportive of government enterprise. Several papers discussed the vital role played by underpricing in achieving the desired ownership structure. Among these papers ***(LaPorta, 1999)***, has pointed out that for emerging market countries, ownership structure plays a very important role in corporate finance. ***(Kim, 2004)***, study the relations hip between managerial ownership and firm performance using Thai IPO firms. Signaling (***Allen, 1989***), asymmetric information ***(Ibbotson, 1975)***, *Offer size* **(W.L. Megginson and K.A. Weiss, 1991)** *age of the* firm ***(Muscarella, 1989)***, ***(W.L. Megginson and K.A. Weiss, 1991)***, ***(McDonald, 1972),*** *Pricing mechanism at BSE* ***(Bansal.R & Khanna, 2012)*** *determinants of ipo underpricing at* ***KSE (Sohail and Raheman, 2009).***

1.1. PRICING MECHANISMS

There are two frequently used techniques to issue shares in an initial public offering; book building, fixed-price and auctions. In India and other countries, the book building technique is the most frequently used method to price shares.

1.1.1 BOOK-BUILDING

Book Building accusations price that the market can bear. Book building usually prompts to more aggressive pricing than traditional fixed price method. Under book building, since all applicants above the cut-off points are allotted shares, ideally, there should not be any pressure of unsatisfied demand in the market, leading to a lesser possibility of market prices rising above the issue price after listing. Thus, IPOs based on book building method may deliver fair pricing.

1.1.2 PRICE DISCOVERY THROUGH THE BOOK BUILDING PROCESS

"Book Building" means a process undertaken by which a demand for the securities tendered to be issued by a body corporate is elicited and built up, and the price for the securities is considered based on the bids obtained for the quantum of securities offered for subscription by the issuer. This method furnishes an opportunity to the market to discover price for securities.

1.1.3 COMPARISON OF PRICING MECHANISMS

Pricing is the main part of IPO process for both investors and issuing company or corporate house To. determine the right price of shares is most important. While deciding the IPOs, there are mainly two pricing methods that are IPO book building and fixed price option. The pricing processes are distinctive in these pricing mechanisms. So we must consider diverse things while calculating the price. And there is a variation in both pricing methods And. price update is depended on different market conditions.

2.0 WHAT IS UNDERPRICING?

Underpricing of IPOs has been considered as a prevalent phenomenon across the world. When companies go public, the equity they sell in as initial public offering tends to be underpriced, resulting in a substantial price jump on the first day trading. Underpricing is generating additional value in the stock when it first becomes traded. This leads to significant gains for investors who have been allocated shares at offer price. However, underpricing an IPO results in "*money left on the table"*- lost capital that could have been raised for the company had the stock been offered at a higher price. ***(Baron, 1982).***

2.1 REASONS FOR UNDERPRICING

Allotment of shares in IPOs elevates an interesting question- *what makes the investors rush towards IPOs*? It seems that there is a significant difference in the prices at which the IPOs are offered to the investors and the price at which they trade on the day of the listing. So if the investors get shares allotted in an IPO at a lower price than sell them on the first day of listing at higher prices, then they can make substantial gains. This phenomenon is known a "under pricing" in the IPO market. In other words, the market (on the day of the listing) seems to conceive that the offer price of the stock was lower and justifies a higher price. The higher the underpricing, greater is the amount of money that can be made by investors who got allocations in the IPO and sell these on the day of listing. This phenomenon is also referred to as "money left on the table" by the firms.

Much of the theoretical research on IPOs has focused on explaining IPO underpricing. Possible reasons for underpricing include self-interested investment bankers ***(Baron, 1982)***, the "winner's curse" ***(Rock, 1986)***, signaling ***(Allen, 1989)*** book building ***(Benveniste, 1989)***. Evidence suggests also that in some countries IPO underpricing may be due to the regulatory environment ***(Loughran T. &., 1994)***, because the allocation of IPO shares can be used as a bribe. Attempts were made to examine the reasons for the initial high returns of these new issues. Some theoretical work suggests that the underpricing of IPOs is associated with asymmetric information and investors' concerns that the decision to issue equity is an attempt to expropriate wealth from outsiders ***(Ibbotson, 1975).***

Empirical studies have found evidence that the underpricing for IPOs of financial institutions is related to proxies for asymmetric information. *Offer size* ***(Megginson, 1991)***, *age of the firm* ***(Muscarella, 1989)***; ***(Megginson, 1991); (McDonald, New issues stock price behaviour, 1972)***, and the volatility of the post-offer return ***(Ritter, 1984)***, have all been associated with IPO underpricing. Recently research work has been done on relationship of pricing mechanism and level of underpricing in Indian stock market by ***(Bansal, 2012).***

This paper undertakes to investigate the extent of underpricing in the Indian primary market by taking a sample of IPOs for the period of eleven years from 2000 to 2011. In addition to, it also investigates what are the different market and firm specific factors that affect the underpricing of IPOs. *These factors include subscription rate (Issue subscribe by Investors), issue size (Number of share offered * offer price), and pricing mechanism (book built & fixed price option).* Multiple regression exhibit that which among these variables is statistically significant to affecting underpricing.

The study furnishes useful insights into which market and firm specific variables are consequential in determining the extent of underpricing of IPOs. The study has more prominent implications for investors who subscribe to different IPOs for listing day gain as this study would help them in understanding which types of the firm are more likely to underprice. This model is also very useful to prediction in prognostication for upcoming public issue.

The rest of the paper is organized as follows. Section 3 describes the literature review which is followed by data and methodology in section 4 & 5. Section 6 shows results and discussion followed by conclusion in section 7.

3.0 LITERATURE REVIEW

One of the earliest and seminal works in the field was done by ***(Ibbotson R. , 1975)***.He studied both initial and aftermarket performance (measured by risk-adjusted returns) on newly issued common stocks which were offered to the public during the 1970s. The empirical evidence on the performance of private and government firms is also inconclusive. ***(Megginson W. N., 1994)*** Suggested that privatized firm perform better than their counterparts. On the other hands, ***(Kay, 1986)*** provided evidence which is supportive of government enterprise. Several papers discussed the vital role played by underpricing in achieving the desired ownership structure. Among these papers ***(LaPorta, 1999)***, has pointed out that for emerging market countries, ownership structure plays a very important role in corporate finance. ***(Kim, 2004)***, study the relations hip between managerial ownership and firm performance using Thai IPO firms. Signaling (***Allen, 1989***), asymmetric information ***(Ibbotson, 1975)***, *Offer size* **(W.L. Megginson and K.A. Weiss, 1991)** *age of the* firm ***(Muscarella, 1989)***, ***(W.L. Megginson and K.A. Weiss, 1991)***, ***(McDonald, 1972),*** *Pricing mechanism at BSE* ***(Bansal.R & Khanna, 2012)*** *determinants of ipo underpricing at* ***KSE (Sohail and Raheman, 2009).*** Recently ***(Islam A. a., 2010)*** conducted empirical tests on the relationship between Subscription rate, issue size, industry type and underpricing using 196 initial public offerings on the Dhaka Stock exchange.

(Rock, 1986), showed that those investors who are more informed (than the firm as well as other investors) about high under pricing offers crowd out uninformed investors. On the other hand, these more informed investors withdraw in issues, which are over priced leaving the uninformed investors with the winner's curse problem. Thus, the uninformed investors would not participate in over priced issues. Hence in order to attract such investors, the firm tries to get under price its IPO.

(Loughran T. &., 2002), found that during 1990-1998 firms, which went public had total earnings of $8 billion while they left $27 billion on the table even though they paid $13 billion as fees to him under writers. This made Loughran and Ritter propound a prospect theory for under pricing where they state that issuers of IPOs leave a lot of money on the table because they see a prospect of higher trading price in the first few days of listing, consequently, offsetting their loss of wealth in under pricing the IPOs and in fact, resulting in net gains to their wealth levels. More importantly they found that most IPOs leave little money on the table.

(Leite, 2007), generalized the informational assumptions of the the Rock model to address empirical evidence and conjectures that the standard model based on informed and uninformed investors is unable to address. They exhibited that high (low) market returns induce the issuer to price the issue more conservatively (aggressively) to create a negative relation between the public signal and the quality of the marginal investor, and in turn a positive link between market returns and underpricing.

(Dolvin, 2008), addressed the question of if or not periods of high underpricing adversely affect pre-existing shareholders. They construct that high levels of underpricing are associated with increased share retention, which effectively offsets much of the potential cost. Comprehensive, the proportion of shareholder wealth lost is stable over time, unlike underpricing itself. Furthermore, many factors known to be related to underpricing are not significant determinants of the cost of going public to pre-existing owners.

(Kumar, 2010) has shown the efficiency of IPO issuing mechanisms using a sample of Indian IPOs that tapped the primary market during 2003-07 by taking into thoughtfulness the total costs the issuers have to face i.e., including both direct as well as indirect costs. He encounters that from a total cost point of view the issuers fare neither better nor worse using either book building or the fixed price offers. Their results also revealed that the issue expenses associated with book building is more than those associated with fixed price offers after controlling for issue size and firm specific characteristics.

(Islam and Ali, 2010), has Analyzed the levels of underpricing in initial public offerings (IPOs) and its determinants of Dhaka Stock Exchange (DSE). Key trends in the levels of underpricing and overpricing are highlighted out on a year to year, and industry as the industry basis. Regression Analysis shows that offer size and size of the company are positively related to the degree of underpricing. However, age of the firm and offer timing were build to have no significant impact on the degree of underpricing of IPO in the Dhaka Stock Exchange.

(Bansal and Khanna, 2012), has analyzed that whatever there is any significant difference in the magnitude of level of underpricing of ipos that evaluated through the book build with those are priced through the fixed price option. They construct the magnitude of underpricing is concerned; the book-build and fixed price option gave different results. They found significant difference in level of magnitude of underpricing in IPOs that priced through the book build with those that are priced through the fixed price option.

4.0 METHODOLOGY

The data is analyzed using multiple linear regression and ANOVA. All the firm specific variables are regressed against the underpricing to find out which variables are significant in determining the underpricing. A two-way ANOVA is done to see if there is a statistically significant difference in *the underpricing between book build issues and issue by fixed price option.*

H1: There is no statistical significant difference in subscription rate and level of underpricing.

H2: There is no statistical significant difference in issue size and level of underpricing.

H3: There is no statistical significant in pricing mechanism and level of underpricing.

4.1 MEASURES FOR VARIABLES

The variables used in the study have been measured as described below.

4.1.1. MEASURE OF UNDERPRICING

Consistent with the standard methodology, underpricing is calculated as the percentage change from the offer price to the closing price in the secondary market.

Traditional Underpricing = ((closing price - offer price) /offer price) * 100.

Log underpricing = ln (P1-P0/P0)* 100

Log Underpricing = ln (closing price/ offer price) is used to determine the level of underpricing and to make standard practice and to avoid hetroscadisticity. Underpricing is used as dependent variable in this regression model.

4.1.2. MEASURE OF SUBSCRIPTION

The subscription measured as the quantity of shares of the total times had investors subscribe after the issue. The natural logarithm of this value is used as it is a standard practice and to remove hetroscadisticity.

4.1.3. MEASURE OF ISSUE SIZE

The issue size is measured as the total number of shares offered multiplied by the offer price. Again, the natural logarithm of this value is used as a standard practice and to remove hetroscadisticity.

4.1.4 MEASURE OF PRICING MECHANISM

A dummy variable is used to find the effect of pricing mechanism on level of underpricing. If ipo issued by book build is give 1 otherwise 0.

4.2 THE MULTIPLE REGRESSIONS MODEL

The impact of the independent variables namely, Subscription rate , Issue size, pricing mechanism both Book build & Fixed price option on the dependent variable underpricing is modeled through multiple regression as:

Underpricing = α + β1 Subscription + β2Issue Size + β3pricing mechanism + e

5.0. DATA COLLECTION

The data for the study was obtained from the website of the Bombay stock Exchange (BSE) http://www.bse-india.com/ under the heading of book building in IPOS. We also supplemented these data from CMIE & Capital line database. The period for which the data was taken for the study was Jan 2000 to 31st dec 2011. BSE was selected for the purpose of this study because it is the largest exchange in the country in terms of trading volumes. There were a total 550 IPOs for the period under study out of which 320 IPOs were underpriced.

IPOS ON BOMBAY STOCK EXCHANGE FROM 2000-2011

TABLE 1: IPOS AT BOMABY STOCK EXCHANGE FROM 2000-2011

Year	Total Issue	Issue in Bse	BB method	FPO method	BB-Underp	Fpo-Underp
2000	118	67	11	56	6	30
2001	16	10	2	8	0	2
2002	5	5	1	4	0	4
2003	14	11	4	7	3	5
2004	28	25	17	8	9	6
2005	70	67	48	19	26	14
2006	90	89	68	21	36	14
2007	106	105	91	14	58	7
2008	38	38	33	5	16	2
2009	21	21	21	0	14	0
2010	73	73	71	2	47	2
2011	40	39	38	1	19	0
Total	619	550	405	145	234	86

6.0 RESULTS ANALYSIS

6.1. DESCRIPTIVE STATISTICS

The descriptive statistics of the various variables in the model are as follows-

DESCRIPTIVE STATISTICS

TABLE 2: PROVIDES THE DESCRIPTIVE STATISTICS FOR THE OVERALL STUDY SAMPLE

	Ln_UND	*Ln_SUBSC*	*Ln_ISSUESI*
Mean	3.164458	2.280388	4.476758
Median	3.280198	2.197225	4.440404
Maximum	7.476755	5.068904	9.646987
Minimum	-0.336472	0.000000	-0.400478
Std. Dev.	1.357890	1.330978	1.748377
Skewness	*0.240327*	*0.052702*	*0.084059*
Kurtosis	*3.060826*	*1.793809*	*3.433706*
Jarque-Bera	*3.129709*	*19.54677*	*2.884866*
Probability	0.209118	0.000057	0.236352
Sum	1012.626	729.7240	1432.563
Sum Sq. Dev.	588.1928	565.1092	975.1258
Observations	320	320	320

6.2. CHECKING THE DATA FOR STAIONARITY OF THE TIME SERIES

A plot of the degree of the underpricing with respect to the number of observations (320) was obtained. Since the issues listed by close of Dec, 2011 were the most recent and the count was from them backwards up to Jan – 2000, the plot shows that the degree of underpricing.

FIG 1: DEGREE OF UNDERPRICING AND AUTO CORRELATION FUNCTION (ACF)

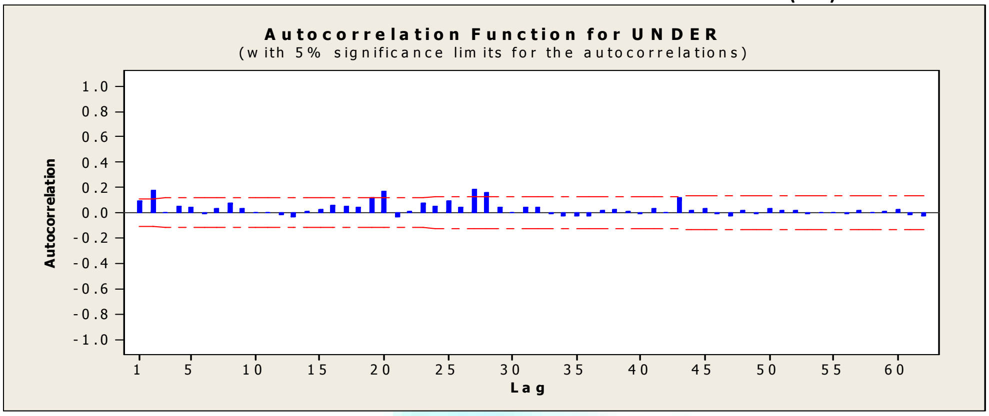
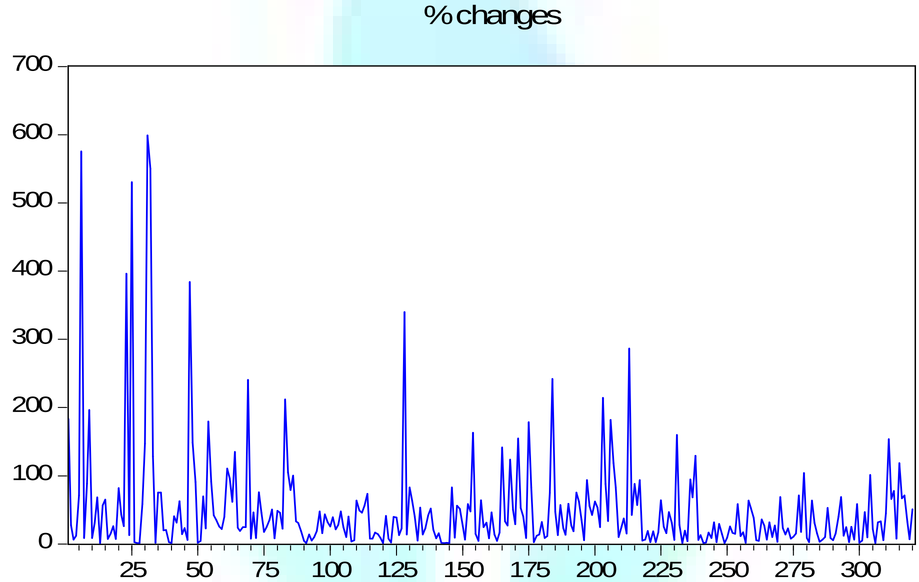


FIG 2: DEGREE OF UNDERPRICING – FIRMS TO THE EXTREME LEFT IN THE X ASIS WERE LISTED IN JAN 2000 AND THOSE TO THE EXTREME RIGHT IN DEC-2011. OTHER FIRMS GOT LISTED IN THE INTERVENING MONTHS. Y AXIS SHOWS THE DEGREE OF UNDERPRICING IN PERCENTAGE TERMS.



In order to test whether the series is stationary or not, the plots of auto correlation functions (ACF) were used and were found to be within confidence intervals. To further establish stationarity, a unit root stationarity test.

TABLE NO 4: STATIONARITY RESULTS BY AUGMENTED DICKEY-FULLER TEST EQUATION

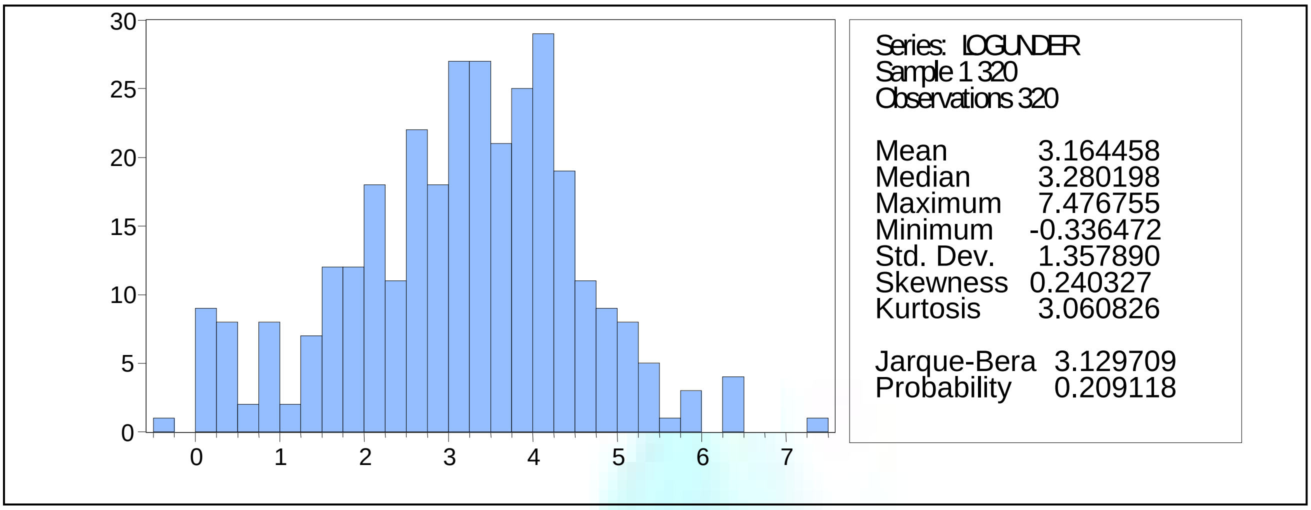
Null Hypothesis: UNDER has a unit root		Exogenous: Constant	
Lag Length: 0 (Automatic - based on SIC, maxlag=16)			
		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-13.93049	0.0000
Test critical values:	1% level	-3.450812	
	5% level	-2.870444	
	10% level	-2.571584	
*MacKinnon (1996) one-sided p-values.			

The computed ADF test-statistic (-13.93) is smaller than the critical values - **"tau" (** -2.5715, -2.870, -3.4508 at 10%, 5%, 1% significant level, respectively), therefore we can reject Ho. It means the underpricing I series doesn't has an unit root problem and the underpricing series is a stationary series at 1%, 10% and 5% significant level.

6.3. TESTING THE NORMALITY OF THE DEPENDENT VARIABLE

In order to find out whether the dependent variable which is degree of underpricing follows the normality assumption or not, we plotted the histogram and conducted Jarque Bera test which gave the following results:

FIG 3 – TESTING FOR THE NORMALITY ASSUMPTION OF THE DEGREE OF UNDERPRICING



The values of both skewness and kurtosis are near the accepted values of Zero and three respectively for a normal curve and the Jarque Bera test does not reject the assumption of normality at 5% level.

6.4. TESTING OF COLINEARITY

COEFFICIENTS[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	4.263	.288		14.822	.000	3.697	4.829		
Logsubs	.343	.053	.328	6.489	.000	.239	.447	.934	1.071
Logissue	-.409	.051	-.497	-8.043	.000	-.510	-.309	.623	1.606
ipotypecode	-.247	.202	-.076	-1.227	.221	-.644	.149	.627	1.594

a. Dependent Variable: logunder

COLLINEARITY DIAGNOSTICS[a]

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	logsubs	logissue	ipotypecode
1	1	2.974	1.000	.01	.02	.01	.02
	2	.807	1.920	.00	.02	.01	.49
	3	.183	4.031	.03	.93	.11	.00
	4	.036	9.052	.96	.03	.88	.49

a. Dependent Variable: logunder

6.5. ESTIMATION THE REGRESSION EQUATION

Underpricing = α + β1 Subscription + β2Issue Size + β3pricing mechanism + e

TABLE NO 5: RESULTS OF MULTIPLE LINEAR REGRESSION

Dependent Variable: LOGUNDER
Method: Least Squares
Date: 02/12/12 Time: 14:31
Sample: 1 320
Included observations: 320
White Hetroskedasticity – Consistent standard Errors & Covariance

Variable	**Coefficient**	**Std. Error**	**z-Statistic**	**Prob.**
C	4.205417	0.262988	15.99088	0.0000
LOGSUBSC	0.353431	0.050827	6.953572	0.0000
LOGISSUESIZE	-0.399437	0.046294	-8.628348	0.0000
IPO_TYPE	-0.218552	0.181881	-1.201621	0.2304
R-squared	0.371932	Mean dependent var		3.164458
Adjusted R-squared	0.365020	S.D. dependent var		1.357890
S.E. of regression	1.164132	Akaike info criterion		3.154250
Sum squared resid	428.2443	Schwarz criterion		3.201354
Log likelihood	-500.6800	Hannan-Quinn criter.		3.173060
F-statistic	39.34181	Durbin-Watson stat		1.633583
Prob(F-statistic)	0.006772			

LOGUNDER = 4.20541694165 + 0.353430595174*LOGSUBSC - 0.399436849451* LOGISSUESIZE - 0.218552352029* IPO_TYPE

The adjusted R squared is 36.50%. The low value could be because of the wide heterogeneity in the firms considered as the sample. The coefficient of SUBSC & issue size is significant at 1% level. The Durbin Watson statistic is close to 2, which reveal that the degree of undepricing is not simulated by first-order auto correlations. In fact, we have checked for the robustness of these results by Akaike information Criterion (AIC) improves slightly.

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	15.712	1	15.712	7.589	.006
Within Groups	658.346	318	2.070		
Total	674.058	319			

Predictors: (Constant), ipotypecode

a. Dependent Variable: logunder

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	167.315	3	55.772	39.34	.000[a]
	Residual	506.743	316	1.604		
	Total	674.058	319			

a. Predictors: (Constant), ipotypecode, logsubs, logissue

b. Dependent Variable: logunder

RESIDUALS STATISTICS[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.4924	4.9266	3.1302	.72422	320
Residual	-5.35723	2.84949	.00000	1.26037	320
Std. Predicted Value	-3.642	2.480	.000	1.000	320
Std. Residual	-4.230	2.250	.000	.995	320

a. Dependent Variable: logunder

7.0 DISCUSSION

Derived on the results of multiple linear regressions it was construct that variables such as subscription and issue size are statistically significant at 1% level of significance. Ipo type has no relevant association at the level of underpricing. There is a consequential relationship between subscription rate and the level of underpricing at 1% level of significance (z = 6.95). So we reject hypothesis 1. The subscription has positive association with the underpricing, which insinuates that higher subscription rate tends to more underpriced and vice-versa. At the time of higher subscription rate the investors who fail to get shares in the ipo market might be transforming towards this increased demand in the secondary market, leading to higher underpricing.

There is a significant connection between issue size and level of underpricing at 1 % level of significant (z= 8.62), which reject hypothesis 2. The issue size has a negative impact on the underpricing, which intimates that firms with more issue size tend to be underpriced less and vice-versa. It can be authoritative that large issue size leads to be increased in supply of share in ipo, leading to lesser underpricing. There is no significant distinction in pricing mechanism and underpricing (z= -1.21). So we accept hypothesis 3 at 5% level of significance (table value z = -1.96). There is no significant difference between pricing mechanism and level of underpricing.

Our study also gave corresponding results regarding subscription rate, i.e. (1***(Ritter, 1984),*** are having a positive relationship between the level of underpricing and the ex ante uncertainty about the value of the firm. The results indicating the positive relationship of subscription rate & level of underpricing in the present study is in confirmation with results found by ***(Islam, 2010***), in their study. The results indicating the negative relationship of issue size with underpricing in the present study is in confirmation with the results found by ***(Deb, 2010),*** book build has found to be more effective pricing mechanism compare to fixed price option The results indicating that there is no significant relationship between pricing mechanism and level of underpricing is in confirmation with result found by ***(Bansal, 2012).*** Pricing mechanism is no significant related with level of underpricing.

8.0 CONCLUSION

This study has several important contributions. This paper analyzed the extent of underpricing in the Indian primary market and examined as to which factors are weighty in affecting the underpricing. Between the variables, only the subscription and issue size was found to be relevant in affecting the underpricing. There is a momentous negative relationship between the issue size and underpricing. While there is a important positive relationship between the subscription and underpricing which implies that larger issuing size firms underpriced less and vice-versa. And firm with highly subscribed tends to be more underpriced. Notwithstanding, there is no significant difference between underpricing and pricing mechanism.

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