

# Investor's Sentiment on IPO And its Impact on Shareholder's Net Worth

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## Abstract:

Initial Public Offering (IPO) is a crucial milestone in a company's development, and investor sentiment has become a growing factor in its game performance. This study is an attempt to analyse the impact of such emotions such as optimism, pessimism and herding behaviour on IPO success and wealth creation in the context of India. The study shows that the positive sentiment, as seen in metrics like subscription, Grey Market Premium (GMP) and listing gains, brings short-term gains while the negative sentiment brings losses. It also takes into account the emotional investing through social media and fin-fluencers. Through the use of tools such as Excel and Power BI and statistical techniques, the results indicate sentiment plays a critical role in IPO performance. The study findings conclude that improving the knowledge and understanding of investors' behavior is essential to create value over the long term in a sentiment driven market. **Key Words** : Initial Public Offering (IPO), Investor Sentiment, Behavioral Finance, Grey Market Premium (GMP),

## Introduction:

An Initial Public Offering (IPO) represents a significant milestone in the lifecycle of a company, marking its transition from a privately held entity to a publicly traded organization. Traditionally, IPOs have been analyzed within the framework of the Efficient Market Hypothesis (EMH), which assumes that financial markets are efficient and that investors make rational decisions based on all available information. Under this view, IPO pricing and performance are determined primarily by objective factors such as financial statements, earnings potential, and growth prospects.

However, real-world market behavior increasingly challenges this assumption. In contemporary financial markets—particularly in emerging economies like India—IPO performance is not solely a function of fundamentals but also a reflection of investor psychology. The rise of Behavioral Finance has shifted the focus from purely

rational models to a more nuanced understanding that incorporates emotions, cognitive biases, and social influences. Investors today are often influenced by sentiment-driven factors such as media narratives, peer behavior, and digital information flows, which can significantly distort pricing and demand during IPOs.

Investor sentiment, defined as the collective mood or attitude of market participants, plays a critical role in shaping IPO outcomes. Bullish sentiment often leads to excessive optimism, resulting in over-subscription, inflated valuations, and strong listing gains. Conversely, bearish sentiment induces caution, leading to weak demand, conservative pricing, and subdued post-listing performance. These fluctuations demonstrate that IPO markets are not merely financial mechanisms but also psychological arenas where perception and emotion interact with economic reality.

The growing influence of technology and digital platforms has further amplified the role of sentiment. Social media, online forums, and financial influencers (“fin-fluencers”) have transformed the way information is disseminated and consumed. This democratization of financial knowledge has increased retail participation but has also introduced higher levels of speculation, herding behavior, and Fear of Missing Out (FOMO). As a result, IPO investment decisions are increasingly driven by narratives and market buzz rather than in-depth financial analysis.

The Indian IPO market provides a compelling context for examining these dynamics. Over the past decade, there has been a substantial increase in retail investor participation, supported by the rapid expansion of demat accounts, mobile trading platforms, and accessible financial services. This “democratization of equity” has injected significant liquidity into the market while simultaneously increasing its susceptibility to sentiment-driven volatility. High-profile IPOs in recent years have illustrated how strong market sentiment can generate substantial short-term gains, but also

how post-listing corrections can erode shareholder wealth when valuations are not supported by fundamentals.

Against this backdrop, the present study aims to analyze the impact of investor sentiment on shareholder net worth in IPOs. It seeks to bridge the gap between traditional financial theories and behavioral insights by examining how sentiment indicators—such as subscription levels, Grey Market Premium (GMP), and listing performance—affect investment outcomes. By integrating quantitative analysis with behavioral perspectives, the study provides a comprehensive understanding of the IPO ecosystem in a sentiment-driven market.

Ultimately, this research underscores the importance of behavioral literacy among investors. In an environment where emotions and narratives often overshadow fundamentals, the ability to critically evaluate sentiment becomes essential for sustainable wealth creation. The study contributes to the growing body of literature on Behavioral Finance by highlighting the need to balance quantitative analysis with psychological awareness in modern capital markets.

### **Methodologica Framework**

The study follows a Time-Series and Sentiment Analysis Focus. By combining chronological sentiment data with historical price movements, the research identifies patterns of how "optimism" leads to overvaluation and how "caution" leads to price corrections.

### **Data Collection and Analysis Tool: -**

**Primary Data:** Gathered through surveys and questionnaires targeting investors to capture raw psychological insights and expectations.

**Secondary Data:** Sourced from NSE/BSE historical data, SEBI annual reports, Grey Market Premium (GMP) trackers, and financial news platforms like Moneycontrol and Bloomberg.

### **Statistical Tools -**

Microsoft Excel: Utilized for preliminary data cleaning, descriptive statistics, and creating basic charts to visualize IPO subscription trends.

### **Review of Literature**

Existing literature on Initial Public Offerings (IPOs) highlights a consistent interplay between investor sentiment, regulatory frameworks, and market performance, particularly in the context of India.

Studies such as Nischay Arora (2020) emphasize the role of investor attention in driving initial IPO returns, supporting attention theory and indicating that higher visibility leads to

stronger short-term gains. However, the study also confirms the presence of long-term price reversals, suggesting that early optimism is often corrected over time. Similarly, Reddy (2015) and Shrivardhini Talule (2025) observe that IPOs tend to generate significant listing gains and positive short-run returns, but underperform in the long run, reinforcing the phenomenon of initial underpricing followed by market correction.

Contrasting these findings, Abhishek Kumar (2021) provides evidence that Indian SME IPOs may outperform in the long run, deviating from global trends of underperformance. This indicates that market segment and firm characteristics play a crucial role in determining IPO outcomes. Supporting this, Potharla (2025) also identifies the dual anomaly of short-term underpricing and long-term underperformance in the Indian IPO market.

From a regulatory perspective, Vikas Gupta (2019) highlights the introduction of anchor investors by the Securities and Exchange Board of India (SEBI) as a mechanism to improve price discovery and enhance investor confidence. Expanding on this, Joshi (2025) categorizes IPO underpricing into voluntary, pre-market, and post-market components, offering a more nuanced understanding of pricing dynamics within India's unique regulatory structure.

Further, Ranjan Dasgupta (2018) examines the broader motivations behind firms going public and the evolution of IPO regulations, while Manali Chatterjee (2023) identifies key determinants of investor sentiment using stock market proxies. Together, these studies underline the growing importance of behavioral factors in shaping IPO performance. Overall, the literature suggests that while IPOs in India offer attractive short-term gains driven by investor sentiment and market attention, their long-term performance remains mixed. This reinforces the need to integrate behavioral finance perspectives with traditional financial analysis to better understand IPO outcomes and their impact on shareholder wealth.

### **Objective of the Research**

1. To examine the influence of investor sentiment on IPO subscription levels and initial listing performance.
2. To assess whether investor optimism leads to overvaluation and subsequent post-listing price corrections.

- To evaluate the impact of investor sentiment on shareholder net worth both during and after the IPO listing phase.

### Research Design

The study utilizes a Time-Series and Sentiment Analysis Focus. By aligning historical IPO performance data—such as listing price and subscription numbers—with chronological sentiment data (news tone and social media buzz), the research models how investor mood fluctuates and influences stock performance over time. This approach allows for the identification of patterns that traditional financial models might miss.

The study adopts an Analytical and Modeling Approach, focusing on:

**Time-Series & Sentiment Analysis:** Combining historical IPO performance data with sentiment scores to model how market mood influences stock performance over time.

**Case Study Method:** Using specific examples like Tata Technologies, Zomato, and LIC to provide empirical depth to the behavioral findings.

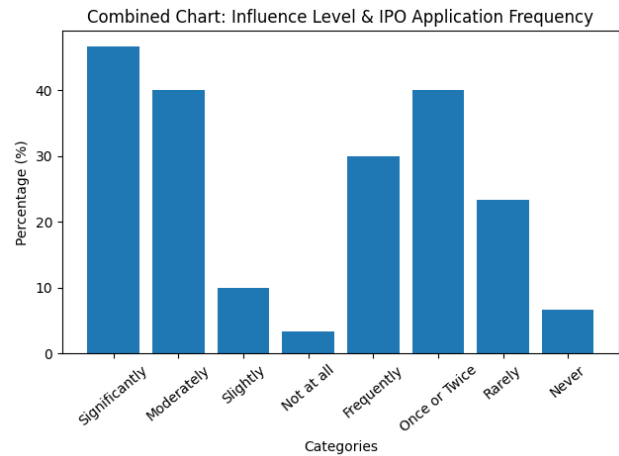
### Data Analysis

**Table 1 : Influence Level & IPO Application Behavior**

Sr. No.	Category	Response Option	No. of Respondents	Percentage (%)
A	Influence Level on IPO Decision	Significantly – It is my main reason for applying	14	46.7%
		Moderately – I consider it along with fundamentals	12	40.0%
		Slightly – I check it but don't rely on it	3	10.0%
		Not at all – I only focus on long-term value	1	3.3%
		<b>Total</b>	<b>30</b>	<b>100%</b>
B	IPO	Yes,	9	30.0%

Sr. No.	Category	Response Option	No. of Respondents	Percentage (%)
	Application Frequency Based on Influence	frequently		
		Yes, once or twice	12	40.0%
		Rarely	7	23.3%
		Never	2	6.7%
		<b>Total</b>	<b>30</b> (Adjusted for comparison)	<b>100%</b>

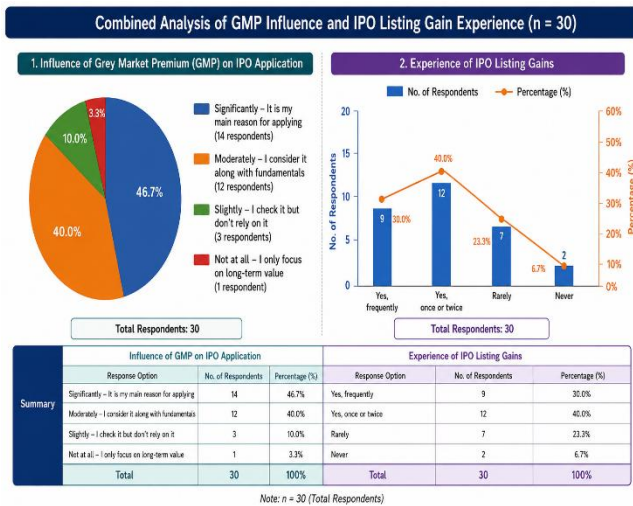
**Chart : 1**



In the sample, about 47% of the respondents said GMP has a significant impact on their applications for the IPO. This indicates that for many investors the listing premium and market sentiment are crucial factors in making an IPO investment. An additional 40% respondents mentioned that they moderately take into account GMP and company fundamentals, which means they have a balanced approach for making investments. A few of the respondents were slightly reliant on GMP. Slightly 10% respondents believe that GMP is a factor to consider while only about 3% think there is a room for GMP but rather look at the long-term investment value. This demonstrates GMP has played a vital role in the short-term investment strategies in the IPO market. The second half of the chart focuses on investors' experience of IPO listing gains. About 30% respondents frequently earned listing gains, while the highest percentage (40%) experienced gains once or twice. This means that, at least at times, most investors have had good returns from

their IPO investments. Also, approximately 23% of the respondents reported that they had not been able to earn listing gains at least often and 7% reported making no listing gains at all. The small proportion in the "Never" group indicates that the IPO investments offer potential profit to many retail investors in general. As a whole, the chart suggests that GMP is an important factor in the decision making process of applying for an IPO, and investors' positive experience of listing further pushes their involvement in IPO markets.

Chart : 2



The data shows that the Grey Market Premium (GMP) is an important factor while making decisions to apply for Initial Public Offerings (IPOs). Nearly half of the investors (46.7% of 30 respondents) said GMP is their primary consideration when making investments in an IPO, demonstrating that they strongly rely on market sentiment and the listing performance of a company before they invest. Further, 33.3% of the respondents stated that they take a balanced investment strategy by including GMP along with the fundamentals of the company. 10.0% respondents indicated that they verify GMP but not heavily on it, and a very small percentage (3.3%) never verify GMP, and they only pay attention to long-term value investing. This means that GMP is now an important short-term investment decision parameter for the modern investors who take part in IPO. As to IPO listing gain experiences, the results reveal that more than half of the investors have experienced IPOs listing gain at least one time. The frequency of listing gains experienced by respondents ranged from 30.0% who experienced it often to 40.0% who experienced it once or

twice. It implies that there are many investors who are a part of an IPO with the expectation of earning in the short-term through listing gains. In addition, 23.3% of respondents said they rarely make gains from being listed and 6.7% never make gains from listing. A low number of investors who never saw profit from their IPO investments suggests that the majority of investors who were asked had good short-term gain from their IPO investments. The study therefore finds that the GMP has a strong impact on the IPO application behavior, and that investors' positive experiences of the listing boosts IPO market activity. The study aligns with the developing trend of retail investors to invest in short-term speculation, as well as in traditional fundamental analysis.

### Findings

The study shows that the younger and early middle age investor has the highest bullish sentiment towards IPO investments, while student and salaried investors also have a positive sentiment. Thus, these groups are actively involved in IPO applications because of increased exposure to digital financial content, enhanced ability to take risk and short-term gains from listing. They may be tempted to invest in a stock simply because the market is bullish on a particular IPO or because everyone is talking about it. The results show that subscription levels and Grey Market Premium (GMP) are significant mechanical factors of IPO sentiment. IPOs that were oversubscribed had more positive listing performance and higher initial investor returns. Likewise, a higher GMP had generated positive market expectations that resulted in an increase in applications and confidence of the investors around potential listing gains. The study identifies the increasing role of “fin-fluencers” and social media in the investment actions of IPOs. Many investors said they were influenced in their IPO application choices by online investment videos, social media discussions and influencer recommendations. This illustrates the shift towards “parasocial trust”, as investors turn to digital personalities for their financial advice and understanding of market sentiment. The analysis reveals a high proportion of respondents had an increase in wealth from listing gains on the listing day of the IPO. But a smaller share of investors saw gains that were inadequate, or it was a loss for the overvaluation concerns, bearish market sentiment or for late investors who entered into the most speculative of IPOs. This is a reflection of the dual characteristics of the IPO investment, wherein opportunities to make wealth coexist with the risks in the market. The research report also shows that students and salaried folks form the biggest part of sentiment-led IPO

investors. Groups typically follow the trend, spot Flash listings and subscription trends, and might not care about fundamental analysis as much as making a quick mark on the price chart. This helps in boosting the retail demand during bullish IPOs. The study shows a strong brand reputation and a positive market buzz can make all the difference for investors when it comes to IPOs. In a number of technology-based IPOs, on the eve of listing, there was significant hype and the IPOs were massively oversubscribed with extremely high listing premiums. This is an example of the positive sentiment and expectation of growth being able to temporarily override some issues with the company fundamentals, which can create rapid wealth for early investors. The results indicate that oversubscription is a direct measure of herd behavior in the IPO markets. In bull markets, investors will make numerous applications for IPOs that have garnered positive media exposure or are getting sufficient "good market price" (GMP) indications even if the company's profitability or valuation is not clear. This collective investor behavior is an example of the psychological effect of market momentum and fear of missing out (FOMO) when participating in IPOs.

#### **Conclusion:**

##### **a) Sentiment as a Major Determinant of IPO Valuation**

The study finds that investor sentiment has the most pivotal impact on IPO share prices in the pre-listing and listing periods. Often, market interest in the brand and its popularity, as well as the first-mover advantage, have a greater impact on value creation than the company's financial results or fundamentals. The study of IPOs for technology firms shows that, even though the business is not very profitable, it can achieve really high listing gains—with a lot of short-term wealth for the owners.

##### **b) Effectiveness of Mechanical Market Indicators**

The results of the research show that Oversubscription Rates and the Grey Market Premium (GMP) can be used as reliable indicators of the market sentiments prevailing. A high GMP can ultimately lead to a Fear of Missing Out (FOMO) effect among the investors, which makes them make hasty IPO applications and can lead to overperformings at the listing day. Likewise, an oversubscribed IPO usually indicates that investors have confidence in the company and have expectations that they will see a quick return on their investment. But the study also reveals that less than optimal global or home market conditions can be detrimental to IPO success, even when the company's fundamentals are solid.

##### **c) The Dual Impact of Digital Financial Information**

Today, investment information is changing hands through social media platforms and financial influencers known as "fin-fluencers." The digital platforms have made a lot of information available to retail investors about IPOs, but have also proliferated speculation and hype generated by the market. Flashy positive sentiment is regularly triggered online, which may lead to "digital herding"—whereby investors rush in without proper risk assessment, the study notes. This emotion-based investing can lead to inflated IPO prices for some time, and when market corrections happen, retail investors can have losses and be set back on their long-term wealth building journey.

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