

Research Article

Pre and Post Anchor Investment Impact on IPO Returns

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Abstract

In the middle of a major crash in Indian stock market, market regulator SEBI had introduced the concept of Anchor investor in June 2009. An anchor investor is a qualified institutional buyer, who can invest up to 60 % of the qualified institutional buyer (QIB) quota; subject to minimum application size of each anchor investor should be Rs.10 crore and a lock in period of at least 30 days. The main intention behind introduction of this concept was to ensure higher efficiency in the Indian stock market as well as to boost the confidence of investors in IPOs. This study, therefore, using the data for 344 IPOs, issued between January 1, 2002 and December 31, 2017, listed in NSE, attempts to compare pre and post Anchor investment impact on IPOs price performance. Analyzing the results using Mann Whitney- U test, the study found some significant impact of anchor investors on IPOs price performance in six months and one year after listing day. In six months and in one year after listing day, returns from Anchor backed IPOs were significantly higher than non Anchor Backed IPOs. Moreover study also absorbed that, returns from Anchor back IPOs were constantly increasing from listing day up to one year as compare to non anchor backed IPOs returns, which turn further indicated that ,introduction of Anchor investment has really been able to achieved price stability objective.

Keywords: Initial Public Offer, Underpricing, Anchor Investment.

1. Introduction

The capital market is a significant component of the financial system of any country. In India, as a result of liberalization and globalization (L&G) in the country's economy since 1991, capital market has observed formidable development. The Capital Market which is segregate into three specially Stock Market, Debt Market and long term Government Bonds. The stringent regulatory control and technological development in the stock market have brought fair environment in stock investment in India. The firms have started looking Indian Capital Market as a good place to raise capital and investors from overseas countries have also started considering Indian capital market as a new lucrative investment destination. Stock market is bifurcated in two segments, (a) the primary market or new issue market and (b) the secondary or the stock exchange market. In recent years along with the advancement in the secondary market, the primary market has also shown the huge improvement. There are two types of issue in the primary market, namely the Initial Public Offering (IPO) and the Follow-on Public Offering (FPO). An Initial Public Offering (IPO) is, when owners of the company offer part of their ownership to the public for the first time. Among the modes of raising funds from the public via, primary market, the initial public offering (IPO) is one of the very well known and most important. For both a financing strategy and an exit strategy IPO can be used. An IPO provides the company an opportunity to access to raising lots of fund. This further provides the company a greater chance to grow and also helps to figure out its true value which is ascertained by lakhs of investors once its shares are listed on stock exchanges. From investors' prospect, IPO provides a chance to buy shares of a company at their chosen price, directly from the company. The price of the issue may be ascertained through the book-building process or fixed by the issuing company itself .In India the book building process is more prominent(in term of number of IPOs issue). Mayur and Kumar (2006) examined statistically significant relationship between financial needs of a companies and IPOs. Many researches through empirical research, it is examined that IPOs are underpriced or provide high initial return on the first day of trading in various countries. Under pricing results when the market price of the

share on the first trading day is higher than shares offered price. The level of IPOs under pricing varies across countries. In India also, a high initial positive return has been observed during the year 2005 to till the beginning of the year 2008 when a bull period prevailed. However, in the year 2008 Indian stock market witnessed a major crash with the NIFTY (the NSE 50 Index) falling to 2524 points on 27th October, 2008 from its high of 6284 on 8th January, 2008 which adversely affected the investor confidence on IPO. In order to bring back confidence amongst the investor on IPOs, and further to help in price discovery and price stability to the issue, market regulator, SEBI (Securities and Exchange Board of India) had introduced the concept of Anchor investment in the market in June 2009. An anchor investor is a qualified institutional buyer, who can invest up to 60 % of the qualified institutional buyer (QIB) quota; subject to minimum application size of each anchor investor should be Rs.10 crore and a lock in period of at least 30 days. One day before the bid is open to other investor categories, Anchor investors subscribe to shares. Having possessed superior information as compared to retail investor, the anchor's confidence is expected to trickle down to the other investors. The debatable question is where Anchor investment really helped in price discovery and price stability to the issue. The present study is directed to (a) compare pre and post Anchor investment impact on IPOs price performance (b) also to examine, whether the underpricing still persists in the stock market in India.

2. Review of Literature

Attempts have been made by researchers to identify various dimensions of initial public offering, ranging from its price performance of short term and long term, under pricing phenomenon, other market factors, allocation mechanism etc. A brief review of literature is presented below;

Rock (1986) examined difference between informed and uninformed investors. If the issues are underpriced, the IPOs will be oversubscribed by informed investors, and very limited number of shares would be available to uninformed investors. If the issues are overpriced, the IPOs will be sold exclusively to uninformed investors, and they will earn negative initial returns. Thus, in IPOs uninformed investors might get all the allocation they have asked for, which are going to earn low return, creating circumstances termed as the winner's curse dilemma. In order to keep retail investors in the IPO market, shares are offered at a discount from their expected listing price. As stated by the winner's curse theory, if the information asymmetry gap between informed and uninformed investors is reduced, then IPO under pricing will decrease. **Allen and Faulhaber (1989)** observed that IPO under pricing depends upon individual firm and specific time. Authors examined that only good quality firm under price the IPO during hot issue period to signal their better quality to the investors due to superior information than the investors. Only better quality firms can follow this strategy because of their ability to compensate for the loss of proceeds incurred due to degree of under pricing, moreover they deliberately try to leave a good taste in investor's mouth so that future issue from the same issuer could be sold at attractive price. **Madhusoodanan and Thiripalraju (1997)** analyzed both short-run and long-run after-market pricing performance of the Indian IPOs issued prior to 1997. Study found that in the short run, the Indian IPOs generate more market-adjusted initial return than the international IPOs. In the long run too (after one year of listing), Indian IPOs generate higher returns compared to the negative returns reported from other countries. **Pandey (2005)** examined the difference in under pricing of IPOs caused by difference in allocation mechanism. Study took a sample of 84 Indian IPOs (20 book-build and 64 fixed price) from the period 1999-2000. To find short run performance of these IPOs author calculated initial average return and for long run aftermarket performance author computed cumulative market adjusted return. Study found the initial returns as-well as cumulative market adjusted return were higher on fixed offer pricing. **Shah and Mehta (2015)** analyzed listing day performance pertaining to 113 IPOs in India during 2010 to 2014 listed in National Stock Exchange (NSE) India. Study found that the market adjusted abnormal return of all sample initial public offering (IPOs) companies were 7.19%. It was observed that IPOs were underpriced. Author also analyzed the impact of various factors: issue price, issue size, over subscription and market index return on under pricing of IPOs using multiple regression analyze. The result of regression analysis found that there was no significant relationship between degree of under pricing and explanatory variables except oversubscription. **Ramesh and Dhume (2015)** examined the price performance of the IPOs, listed on National Stock Exchange (NSE), using a sample of 150 IPOs that entered the primary capital market during May, 2007 to December; 2011. The study found that there exists overpricing in the Indian Primary Market. Secondly overpricing was more prevalent in the long run time period

then short run. **Low (2009)** investigated an increasingly common feature of IPO in Hong Kong the participation of cornerstone investors. The concept of anchor investors in India and cornerstone investors in Hong Kong are almost similar. In Hong Kong, business tycoons invest money in IPO before their launch in the hope of earning handsome returns. Cornerstone involvement contributes positively towards increasing the general receptiveness of the issue. Author argued that the existence of the household names and their dedication to hold the stock for a given lock-in period acts as positive signal for the market. **Malpani (2013)** tried to examine whether the introduction of anchor investment by SEBI actually served its purpose of bringing investor confidence and provide stability in a volatile market at various time lengths using the data of 17 IPOs issued during 2009 to 2011. Author used mean, standard deviation, independent sample t-test tools to analysis the result. Study found that the presence of anchor investment has no influence on the share price ranging from short term and long term horizon. Further examination also revealed that price fluctuation of post listing IPOs are mainly attributed by other market factors then anchor investment. **Gupta and Jindal (2016)** tried to examine the effect of the introduction of anchor investors has had on the IPO return by comparing the return from the IPOs where Anchor investors were appointed vis-à-vis return of IPOs with no Anchor investors. Authors calculated absolute as well as the market adjusted excess returns on the day of listing and one month post listing data. Total 101 IPOs (From 2009 TO 2011) listed on the NSC were taken as a sample. Study found no significant difference in the average absolute initial returns and market adjusted excess return between anchor back and non anchor back IPOs. Study also found that return of both categories of IPOs fall drastically after 30 days.

3. Research Design

3.1 Objective of the study:

- To compare pre and post Anchor investment impact on IPOs price performance.

3.2. Sample design and Data Collection:

Study was conducted using 344 IPOs (122 Anchor backed IPOs & 222 Non Anchor backed IPOs) that went public during the financial year from 2002 to 2017. Data for Anchor backed IPOs were collected from 28, July, 2009 to 31 December, 2017 and data for Non Anchor backed IPOs were collected from 1st January 2002 to 27 July 2009. The sample is restricted to IPOs listed on National Stock Exchange (NSE) of India compulsorily. This study depends on secondary data. Data is collected from prime database.com and nseindia.com.

3.3. Sample criteria for the study.

- i. Companies having data regarding Offer Price, Listing Date, Listing Price and the prices subsequently required are available.
- ii. For study instruments of issue are equity shares and S&P CNX Nifty was selected as the market index for the study (for the same period).
- iii. For anchor subscription Retail Subscription data are considered.
- iv. Companies who have not split stock and issued bonus share within one year were considered for study.
- v. For study IPOs issued through fixed price route were also not considered.

Finally total 344 sample (122 Anchor backed Book Building IPOs listed form 28, July 2009 to 31st December, 2017 and 222 Non Anchor backed Book Building IPOs listed from 1st January 2002 to 27, July, 2009) were considered for the study

4. Methodology to evaluate price performance

To find the magnitude and degree of the difference of market price of the stock from its offer price, returns have been computed for both Anchor backed and non Anchor backed IPOs. Negative returns on listing indicated overpricing while positive returns on listing day specified under pricing.

- #### 4.1 Initial price performance:
- The initial retune is calculated by ascertaining the difference between the closing price on the first day trading and offer price (Anchor backed and non Anchor backed IPOs) and then dividing it by offer price. The result figure is multiple by 100 to set the figure in percentage which is given in a formula below:

$$RRet = \frac{p_1 - p_0}{p_0} \times 100 \dots \dots (i)$$

Where, R Ret. = Represents raw return or initial return for stock.

P1 = Represents closing price on the first day of trading (on listing date).

Po = Offer price of the security.

Further, adjusted market return is calculated to adjust substantial change and time gap between the offering and listing of the stock. From the following formula:

$$MAER = \frac{p_1 - p_0}{p_0} - \frac{m_1 - m_0}{m_0} \times 100 \dots \dots \dots (ii)$$

Where, MAER= Represents market adjusted excess return.

M1= Represents closing value of Market Index on first trading day.

Mo= Represents Closing value of Market Index on offer closing date.

4.2. After-Market Performance

The returns for different time periods considered have been calculated by taking closing prices of the given stock after the specified time gap (in six months and in one year for both Anchor backed and non Anchor backed IPOs) from the listing day.

Following formulas are used to find out aftermarket price performance.

$$RRet_t = \frac{p_t - p_0}{p_0} \times 100 \dots \dots (iii)$$

Where, R Ret t. = Represents initial return or raw return for stock at time t after listing day.

Pt= Represents closing price at time t

Po=Represents closing price on listing day.

Likewise, the market adjusted excess returns are calculated for the given time periods by using the formula:

$$MEARt. = \frac{p_t - p_0}{p_0} - \frac{m_1 - m_0}{m_0} \times 100 \dots \dots \dots (iv)$$

Where, MAER = Represents market adjusted excess return at the end of time period t

M1 = Represents closing value of Market Index at time period t

Mo = Represents closing value of Market Index on listing day

Further, mean, standard deviation and standard error of both the group of IPOs have been calculated for different time periods.

5. Statistical Tool:

5.1 Mann Whitney U Test

To examine the validity of null hypothesis, study carried out Mann Whitney U test to conform whether price performance of Anchor backed and non Anchor backed IPOs are statistically significant or not. Mann Whitney U test is a rank based non-parametric test alternative to the independent-sample t-test, which is use to compare

between two independent groups when the dependent variable is not normally distributed. Data of the present study were not normally distributed as per SPSS analysis. Further, in order to interpret the result from test; study determined whether two distributions (i.e., the distribution of scores of both groups of the independent variable) have same shape. Whenever data fulfilled one of its critical assumption (i.e. Distributions of the two groups of the independent variable were similarly shaped,) the study used Mann-Whitney U test to figure out if there was a statistically significant median difference in price performance between both groups of IPOs, and whenever data failed the critical assumption, study tried to determine if there was statistically significant difference in the mean ranks of the dependent variable in terms of the two groups using the same test. IPO is independent variable in this study, which is split into two groups (Anchor backed IPOs and Non Anchor Backed IPOs) and Price performance (return) is the depended variable.

6. Result and discussion:

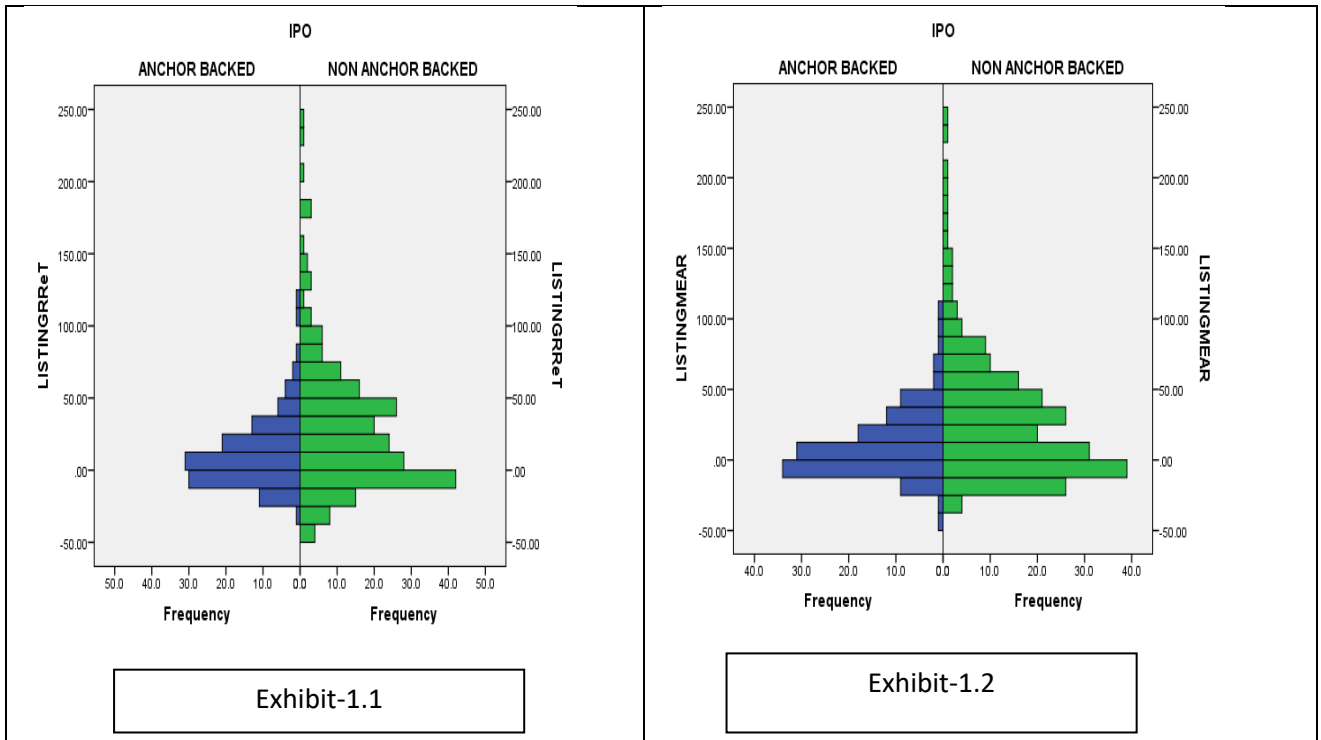
Table 1: Mean, Standard Deviation & Standard Error of Anchor backed and non Anchor backed Investors Stocks on listing date, Six months after listing day and One year after listing day. (Figures are in percentage)

	Group Statistics				
	Anchor Investors /Non Anchor Investors	Number of IPOs	Mean	Standard Deviations	Standard Error
Return on listing Date (Raw Return)	1.00	122	11.6126	24.44279	2.21295
	2.00	222	29.6515	48.22976	3.23697
Return on listing date (Marked Adjusted Return)	1.00	122	11.6631	24.18154	2.18929
	2.00	222	29.7232	47.25841	3.17178
Return in six months after listing date(Raw Return)	1.00	122	13.4661	41.74018	3.77898
	2.00	222	4.0446	69.83199	4.68682
Return in six months after listing date (Marked Adjusted Return)	1.00	122	9.5561	40.34481	3.65265
	2.00	222	-5.0151	63.19014	4.24104
Return in 1 year after listing day (Raw Return)	1.00	122	11.7841	50.36548	4.55988
	2.00	222	11.7477	103.14951	6.92294
Return in 1 year after listing day (Marked Adjusted Return)	1.00	122	4.0774	47.16628	4.27023
	2.00	222	-4.6560	95.27422	6.39439
In the table 1, 1=IPOs with Anchor Investors, 2 =IPOs without Anchor Investors.					
Source: from www.primedatabase.com and www.nseindia.com and analyzed using SPSS.					

As evident from the table 1 it is seen that, the IPOs backed by Anchor investors shown fairly low positive average absolute initial return of 11.6126 percent (with standard deviation of 24.44279 percent), compare to non anchor backed IPOs average absolute initial return of 29.6515 percent (with standard deviation of 48.22976 percent). Similarly it is seen that average initial market adjusted return of 11.6631percent (with standard deviation of 24.18154 percent) for IPOs backed by Anchor investors which is reasonably lower return then average initial market adjusted return of 29.7232 (with standard deviation of 47.25841) of IPOs without backed by Anchor investors. Further, in six months after listing day, study found that, Anchor backed IPOs continued giving positive returns,(average raw return of 13.4661 percent with standard deviation of 41.74018 percent)and average adjusted market return of 9.5561 percent (with standard deviation of 40.34481 percent) .However, returns of non Anchor backed IPOs gone down sharply in six months after listing for(both average raw return of 4.0446 percent (with standard deviation of 69.83199 percent) and average adjusted market return of -5.0151 percent (with standard deviation of 63.19014 percent).In one year after listing date, although returns from

Anchor backed IPOs underperformed bit, but still remained positive for both average raw return of 11.7841 percent (with standard deviation of 50.36548) and average market adjusted return of 4.0774 percent (with standard deviation of 47.16628). In one year after listing date returns from non Anchor backed IPOs improved little bit again for both average raw return of 11.7477 (With standard deviation of 103.14951) and average market adjusted return of 4.6560 (with standard deviation of 95.27422) however, as compare to anchor backed IPOs the returns of non Anchor backed IPOs remained low.

Evaluation of the distribution return scores of anchor backed and non anchor IPOs on listing date, in six months and in one year after listing day using SPSS statistics:



Pre and Post Anchor Investment Impact on IPO Returns

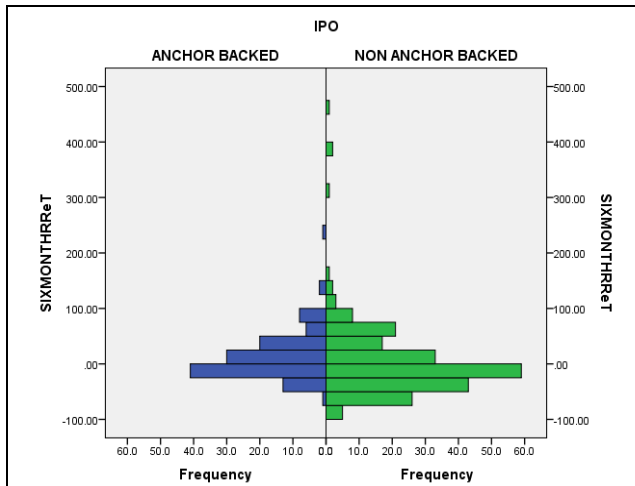


Exhibit-1.3

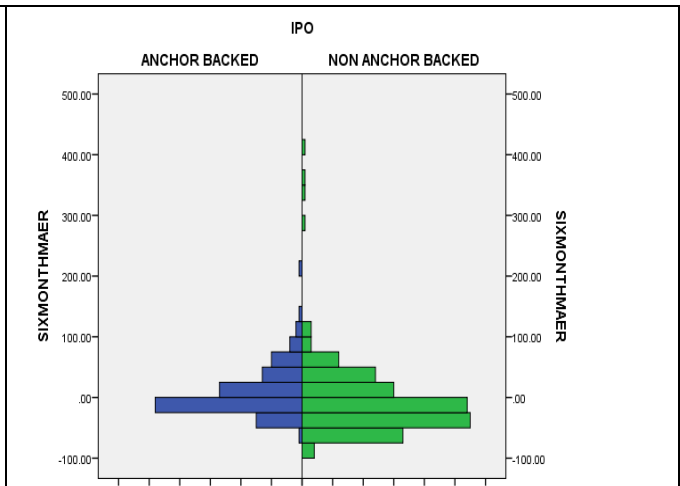


Exhibit-1.4

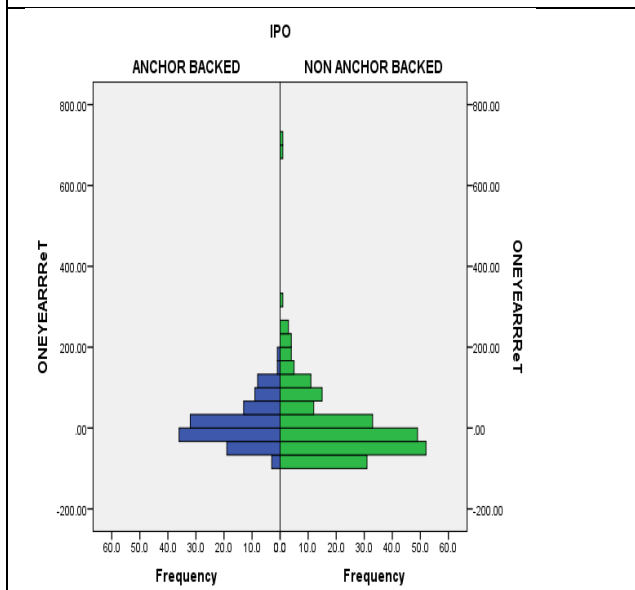


Exhibit-1.5

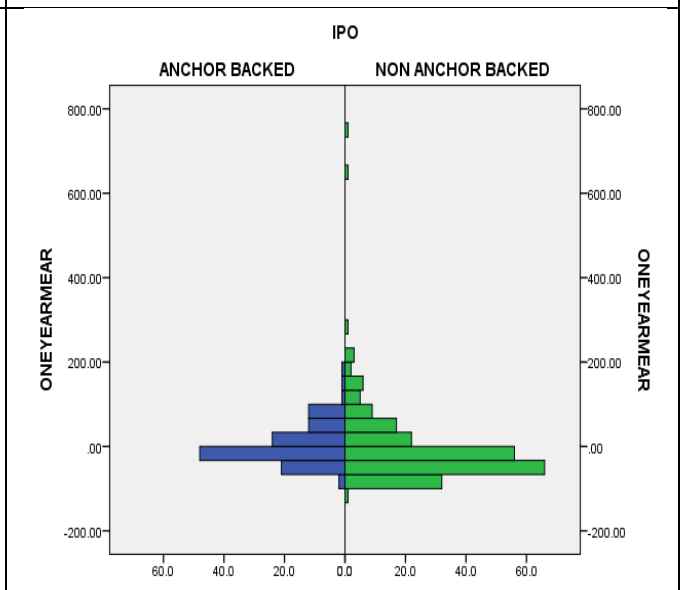


Exhibit-1.6

By looking at these pyramids above in Exhibit: 1.1, Exhibit: 1.2, Exhibit: 1.3, and Exhibit: 1.4, authors made judgment about distribution of scores of IPO return scores, which are not fairly similar shape in both cases (i.e., Raw returns and market Adjusted returns). So, Mann Whitney U-test was used to determine whether there is difference in the distribution of two groups. However, as assessed by visual inspection of the above pyramids in Exhibit: 1.5 and Exhibit: 1.6, authors made judgment that distribution of the return scores for Anchor backed IPOs and non Anchor backed IPOs were similar. (, i.e., in both raw returns and market Adjusted returns). So here

as well, Mann Whitney U-test was used to test to determine whether there are differences in the medians of Anchor backed IPOs and non Anchor backed IPOs in one year after listing.

Mann-Whitney Test Ranks

	IPO	N	Mean Rank	Sum of Ranks	Median
Raw Returns on Date of Listing	Anchor Backed IPOs	122	149.55	18244.50	6.4250
	Non Anchor backed IPOs	222	185.11	41095.50	18.4750
	Total	344			12.8100
Market adjusted Returns on day of Listing	Anchor Backed IPOs	122	151.16	18442.00	6.2450
	Non Anchor backed IPOs	222	184.23	40898.00	19.1850
	Total	344			10.9350
	Total	344			-3.6750
Returns in six months after listing (Raw Return)	Anchor Backed IPOs	122	198.37	24201.00	6.1000
	Non Anchor backed IPOs	222	158.28	35139.00	-11.4300
	Total	344			-4.1150
Returns in six months after listing (Marked Adjusted Return)	Anchor Backed IPOs	122	206.55	25199.50	-8.650
	Non Anchor backed IPOs	222	153.79	34140.50	-18.6000
	Total	344			-9.7400
Returns in one year after listing (Raw Return)	Anchor Backed IPOs	122	192.46	23480.00	3.0550
	Non Anchor backed IPOs	222	161.53	35860.00	-17.2700
	Total	344			-6.3100
Returns in one year after listing (Marked Adjusted Return)	Anchor Backed IPOs	122	201.30	24559.00	-7.6500
	Non Anchor backed IPOs	222	156.67	34781.00	-29.3500
	Total	344			-18.7950

Source: from www.primedatabase.com and www.nseindia.com and analyzed using SPSS.

Test Statistics

	Raw Return on Listing day	Market Adjusted Return on Listing date	Raw Return in six months after listing day	Market Adjusted Return in six months after listing day	Raw Return in one year after listing day	Market Adjusted Return in one year after listing day
Mann-Whitney U	10741.500	10939.000	10386.000	9387.500	11107.000	10028.000
Wilcoxon W	18244.500	18442.000	35139.000	34140.500	35860.000	34781.000
Z	-3.174	-2.950	-3.577	-4.708	-2.759	-3.982

Asymp. Sig. (2-tailed)	.002	.003	.000	.000	.006	.000
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Grouping Variable: IPO

Significance level is 0.05

Comparison and Analysis (raw and market adjusted) returns scores between Anchor Backed IPOs and non Anchor backed IPOs.

As the shapes of distribution seen in the above pyramid (exhibit 1.1) of listing day raw return scores for two groups of IPOs were not similar. In listing day raw returns comparison, the study found that return scores for Anchor backed IPOs (mean rank =149.55) and return scores for non Anchor backed IPOs (mean rank= 185.11) were statistically significantly different, $U= 10741.500$, $Z= -3.174$, $p= < 0.05$. Asymp. Sig., (2-tailed).Likewise, shapes of distribution as seen in the above pyramid (exhibit 1.2.) of listing day market adjusted return scores for two groups were also not similar. In marked adjusted listing day returns comparison also, authors found that return scores for Anchor backed IPOs (mean rank = 151.16) and return scores for Non Anchor backed IPOs (mean rank=184.23) were statistically significantly different, $U=10939.000$, $Z= -2.950$. $p= <0.05$. Asymp. Sig, (2-tailed).On listing day, returns from non anchor backed IPOs were significantly higher then return from anchor backed IPOs in both raw return and market adjusted return comparison. Further, by visually examination of Exhibit 1.3 it is seen that, distributions of the raw return scores of six months after listing were found not similar and mean rank for Anchor backed IPOs (198.37) and mean rank of non Anchor backed IPOs (158.28) was statistically significantly different, $U=10386.000$, $Z=-3.577$, $p= <.0005$. Similarly, distributions of the market adjusted return scores of six months after listing for both the groups were found not similar as judged by visual inspection in Exhibit 1.4 and mean rank(market adjusted) for Anchor backed IPOs (206.55) and mean rank of non anchor backed(market adjusted) IPOs (153.79) was also statistically significantly different, $U=9387.500$, $Z= -4.708$, $p<.0005$.However, by visually examination of Exhibit 1.5 it is seen that, distributions of the raw return scores of one year after listing were found similar and median return scores for Anchor backed IPOs (3.0550) and median return score of non anchor backed IPOs (-17.2700) was statistically significantly different, $U= 11107.000$, $Z= -2.759$, $p= <.0005$.Likewise, Distributions of the market adjusted return scores of one year after listing for both the groups were found similar as judged by visual inspection in Exhibit 1.6 and median market adjusted return scores for Anchor backed IPOs (-7.6500) and non anchor backed IPOs (-29.3500) was also statistically significantly different, $U=10028.000$, $Z=-3.982$, $p .001 <.0005$.

7. Conclusion

The present study intended to compare pre and post Anchor investment impact on IPOs price performance at various time periods. In both listing day raw return and listing day market adjusted return comparison, the study found returns from non Anchor backed IPOs group were statistically significantly higher than the returns from Anchor IPOs group. Study also examined that, raw returns and market adjusted returns of both groups of IPOs on listing day showed positive returns which shows that the investors who buy shares on the offer date earned excessive returns from holding the shares of the IPOs on the first day of trading of the shares and underpricing still persists after lurching of Anchor investment concept as well. However, as per the analysis of data, study also examined that, underpricing of IPO was substantially low in Anchor backed IPOs as compare to Non Anchor backed IPOs during the study period. Further, analyzing the results using Mann Whitney- U test, researchers found some significant impact of anchor investors on IPOs price performance in six months and one year after listing day. In six months and in one year after listing day, returns form Anchor backed IPOs were significantly higher than non Anchor backed Group. Moreover study also absorbed that, returns from Anchor back IPOs are constantly increasing form listing day up to one year as compare to non anchor backed IPOs returns, which further indicates that ,introduction of Anchor investment has really been able to achieved price stability objective. Therefore, the study concludes that, change brought by SEBI in primary market (By introduction of concept Anchor investor in primary capital market) is good decision for both companies and the investors. The Study further suggests, more research with extended empirical evidence is needed to support the conclusion drawn in this study.

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SHORT BIOGRAPHICAL NOTE OF SANJAYA KUMAR SUBBA

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SHORT BIOGRAPHICAL NOTE OF S S MAHAPATRA

Prof. S. S. MAHAPATRA is currently working as a Professor & Head in the Department of Commerce, Sikkim University, Gangtok. Prior to his appointment, he worked for 25 years as faculty in the Department of Commerce of Sikkim Govt. College, Tadong and for a brief period of time he was Principal of Sikkim Government College, Gyalshing, West Sikkim. He has almost 32 years of experience in teaching to B.Com and M.Com students. Under his guidance two scholars have been awarded PhD (One from IGNOU and One from Sikkim University). He has a number of publications in both national and international journals. In the last 5 years he has 09 publications in various journals. He is/was also a member/chairman of higher educational bodies of Sikkim University. In addition, he is/was also a Member of Academic Council of SRM Sikkim University, ICFAI Sikkim University Sikkim Manipal University. He also worked as Member of Board of Under Graduate Studies of Commerce of University of North Bengal. In addition to his normal profession of teaching, he has been functioning as Regional Director, ICSI-SU Study Centre. He is also a member of the Advisory Committee

Sikkim Government College, Gyalshing, West Sikkim. He was also a member of the Committee for drafting Statutes and Regulations of Sikkim State University, Gangtok. He is also presently working as Coordinator of IGNOU Study Centre-2420, Sikkim University. Under his guidance, four learners completed MS-100 projects of IGNOU