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A STUDY ON IPO PRICING AND MARKET REACTIONS IN INDIAN EQUITY AT CITI FINANCIAL LTD

[#1]Ms. A. JYOTHSNA, *Assistant Professor,*
[#2]SAMBU ARCHANA, *PG Student,*
Department of MBA,
J.B. INSTITUTE OF ENGINEERING & TECHNOLOGY (AUTONOMOUS), HYDERABAD.

ABSTRACT: The price swings and market response to Citi Financial Ltd.'s first public offering (IPO) on the Indian stock exchange are examined in this essay. A number of factors, such as the issuer's fundamentals, investor mood, the regulatory environment, and general macroeconomic conditions, affect the pricing of an initial public offering (IPO) in India. The inquiry evaluates whether Citi Financial Ltd. was undervalued or overvalued at the time of issuance. It uses publicly available offering data and market performance metrics after listing to analyze investor responses in the short- and medium-term aftermarket. The research looks at how the listing day price is affected by sectoral positioning, issue size, subscription demand, and gray market features. By clarifying the processes of price determination, investor expectations, and the use of IPO values as indicators within India's dynamic financial services sector, the findings advance knowledge of the effectiveness of initial public offerings (IPOs) in developing countries.

Keywords: *Underpricing, Listing-Day Returns, Investor Sentiment, Book-Building Mechanism and Market Efficiency*

1. INTRODUCTION

Initial public offerings (IPOs) significantly influence the Indian stock market's response contingent upon their pricing. Deliberate underpricing frequently results in substantial short-term listing gains, although typically correlates with poor long-term performance. The regulations, foundational principles of the enterprise, and market sentiment exert the greatest influence on outcomes.

Consequently, the Indian stock market is among the most dynamic and volatile globally. The growth has been facilitated by robust legal systems, an increase in entrepreneurs, and a rise in investors. Initial Public Offerings (IPOs) are significant as they enable companies to raise capital from the public while providing investors with novel opportunities for profit. The IPO pricing process remains complex due to the necessity for issuers, underwriters, and officials to assess the company's valuation, market demand, and informational deficiencies. The methodology of price determination or alteration significantly influences buyer perception of a firm and its subsequent performance post-IPO. This is true regardless of whether prices remain constant or fluctuate due to book building.

The market response in India to initial public offerings (IPOs) may indicate that the proposed price is below the stock's true market value. This may result in issues such as underpricing, oversubscription, and short-term volatility. These remarks illustrate the functioning of the

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market, the sentiments of investors, and the efficacy of the pricing mechanism. One can get knowledge regarding assessment methodologies, behavioral finance, and the functioning of capital markets by examining the ratings of IPOs and the market's reactions to them.

2. REVIEW OF LITERATURE

Lakshay Khandelwal & Aditi Agarwal (2021) This research examines thirteen regions of the Indian market for initial public offering underpricing using data from 2020 October. To facilitate comparisons across industries, it calculates listing-day gains, weighted averages, standard deviations, and coefficients of variation. From a listing-day perspective, the analysis found that retail, FMCG, and consumer durables saw the most significant benefits. Conversely, listing returns in the engineering and infrastructure sectors were typically low or even negative. Potential motivators include the visibility of profits, market cyclicality, and investor mood. According to the research, the magnitude of the problem and the degree of informational inconsistency prior to posting determine the degree of underpricing. This research attempts to answer the question of whether sector-specific variations are a result of market liquidity or macroeconomic developments. After taking rules into account, it is determined that sector identity remains crucial. Policymakers and producers should work together to improve sector information and calibrate pricing bands. The empirical technique draws on basic descriptive and inferential statistics, as well as cross-sectional investigations. Notable limitations include an exclusion of micro-cap SME IPOs and a sample cut-off date of 2020.

Vibhute (2021) Specifically examining issues in the manufacturing sector, this research seeks to understand why initial public offerings (IPOs) in India are priced too low. It tracks a set of IPOs to see how much they were underpriced and reveals a trend of consistently positive anomalous returns on day one. Considerations such as listing market conditions, issue specifics (such as offer size and promoter ownership), and company specifics (such as age, size, and revenue) are all part of the analysis. Underpricing is more prevalent among younger and smaller manufacturing enterprises, lending credence to ideas of knowledge asymmetry. Underpricing entices inexperienced customers, according to the research. It examines outcomes across three months and finds mean reversals multiple times as well. In order to decipher unusual outcomes, the technique employs cross-sectional regressions and event-research analysis. Various listing windows and subsample testing are part of robustness testing. In order to evaluate fixed-price and book-building strategies, the author suggests doing more comprehensive time-series research.

N. Sreenu (2022.) Researchers in this real-world research wanted to see if Indian companies might avoid underpricing their initial public offerings (IPOs) by using conservative pre-listing accounting practices. By analysing conservative accounting and company indicators, the author demonstrates a statistically significant negative correlation between being cautious before an initial public offering (IPO) and experiencing abnormal returns on day one of trade. Good reporting reduces information inequality and unjust selection, according to this point of

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view, so producers can achieve prices closer to the assets' genuine worth. Among the factors taken into consideration are volatility in the market, issuance methods, company size, and age. Additionally, it demonstrates that IPOs that are underappreciated by analysts are more likely to experience the conservative effect. When public data is scarce, this highlights the significance of private signs. Clear and thorough financial reporting has policy implications, such as reduced dilution costs for issuers and fair pricing for investors. Findings should be monitored for a longer period following the IPO, and the research recommends comparing markets across the board.

C. H. Sonu (2022) This research investigates how underwriters' actions, such as making pricing recommendations and distribution decisions, contribute to the underpricing of India's initial public offerings (IPOs). After providing a theoretical framework for understanding underwriters' motivations, the article delves into the practical implications by analyzing a dataset of Indian offers. Studies show that underwriters who have greater distribution network reach and share assignment authority are more inclined to promote purposeful underpricing in order to benefit certain clientele. Conversely, positive issuers are more likely to have their offer prices approved at higher levels (with less underpricing). The paper discusses the regulatory compromises that arise between underwriter domination and recommendation transparency. Since larger, more reliable syndicates often have greater price discovery, this demonstrates how crucial syndicate composition is. Regressions using issue-specific controls and business-quality proxies are employed in this paper's methodology. Some have proposed being more transparent regarding allocation policies in order to lessen the likelihood of conflicts of interest.

Bharat Monikar (2023) This extensive SSRN analysis analyzes the 2021 and 2022 Indian IPO returns and the accuracy of IPO pricing. It examines the interrelationships of anchor allocations, subscription trends, listing returns, and issue pricing (the cost of an offer relative to valuation standards). Many small and mid-cap companies gained a lot of money on their first day of trading, but the success of the 2021-2022 wave was unequal over three to six months, according to the research. A number of factors have significantly affected preliminary returns, including retail involvement, grey-market premiums, and the quality of underwriters. Company fundamentals and market sentiment can be separated using multivariate regressions. Additionally, it examines macroeconomic concerns, such as supply chain issues and the ongoing impacts of the epidemic, that altered market sentiment and price setting. To avoid unreasonably low prices, some of the suggestions include improved pre-IPO information and customized book-building techniques. Some have raised concerns about the SSRN collection's limitations and the potential impact of new legislation.

Y. Suneetha & G. Latha (2024) Focusing on companies that went public between 2021 and 2023, this journal article primarily examines the changes in IPO returns in the six months after the listing day. According to the research, stock listing days typically have good returns. After that, though, results are completely uncertain, and by three months, many worries see a return to their original state. The consumer and technology sectors are experiencing tailwinds,

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which can boost short-term listings. The gray market is showing indications of improvement, and the retail subscriber base is robust. Lower listing returns are associated with smaller issue sizes and more promoter sell-downs, however. The authors demonstrate stability through the utilization of event-research windows and cross-sectional regressions. The impact of market volatility and shifts in monetary policy on returns is also examined in the research. Policy analysis suggests adjusting retail restrictions and providing investors with greater education prior to an initial public offering (IPO) as ways to reduce the amount of speculative oversubscriptions.

K. R. Gopala (2024) Initial public offers (IPOs) and the subsequent gains realized by investors are examined in this research in relation to the sentiments of small-scale investors in India. The author finds that retail optimism frequently leads to greater grey-market prices and aggressive subscription behavior using survey techniques and secondary market data from previous initial public offerings. Data suggests that offer prices may not reflect genuine values due to perception-driven demand, leading to increased short-term instability following listing. All throughout the group, statistical tests such as t-tests and regressions reveal a significant underpricing ($p < 0.05$). The research considers behavioral and legal factors, including herding and attention-grabbing marketing. Options such as improving the presentation of prospectuses and conducting investor suitability assessments are considered. Finally, it concludes that additional research into the effects of fintech distribution channels on retail pricing and availability is needed.

Matharu, J. S (2024) Underpricing is prevalent across all issue-price-based classification groups, according to this research that examines a subset of Indian initial public offerings (IPOs). How listing-day costs relate to subscription rates, promoter stake retention, and security issuance processes are the main areas of focus in this research. It demonstrates that, in contrast to book-built issues, fixed-price IPOs frequently exhibit obvious underpricing patterns. The author discusses the effects of the gray market on consumer demand and the role of institutional anchors in maintaining stock price stability following listing. A key indicator of high initial returns, according to simple regression analysis, is oversubscription, particularly in the retail sector. The research demonstrates the necessity for larger datasets spanning more years in order to examine structural changes resulting from changes in government.

Acharya, G.(2025) The industry analysis provides a comprehensive overview of initial public offering (IPO) activities for fiscal year 2025. It includes analyses of listing days, total funding, and number of IPOs every three months. According to KPMG, activity on India's main market has been on the upswing, with substantial sums raised and remarkable median and mean listing gains over the past few quarters. The research examines the impact of different types of investors on price movements. The market concentration of banks, consumer goods, and technology is the main focus. Price bands, trends in transaction size, and the frequency of big anchor allotments are all examined in this research, along with the effects of the gray market. In order to strike a balance between capital requirements and

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market signals, issuers are increasingly selecting calibrated pricing bands, according to the report. Timeliness, marketing tactics, and regulatory compliance are all areas where issuers and advisers might benefit from this data.

Khandelwal, L (2025) This research lays the groundwork for the IPO cycle of 2024–2025 and provides an outline of the overall IPO revenues. The sum earned was nearly double that of the previous year. The article discusses how several assets had large first-day gains due to robust demand, illustrating the correlation between economic conditions and liquidity levels and the resulting surge in primary market activity. It also causes individuals to be concerned about the possibility of a long-term mean reversal and excessive price increases. Using S&P statistics and exchange-level scores, the article highlights premium offers and sectoral winners to illustrate India's position in the global fundraising arena. The data is helpful for specialists because it demonstrates the large-scale connection between total issuance, investor demand, and future listing activity.

M. Nigudkar (2025) With an emphasis on average listing gains, issuance volumes, and leading industries, this working paper examines the price changes of initial public offerings over a ten-year period (2016–2025). Author paints comprehensive picture of price results and success following listing using exchange records, prospectus filings, and media reporting. The main arguments are that prices were either too low or too high due to an increase in liquidity, and that listings in specific industries (such as technology and banks) made a lot of money during prosperous years. Changes in legislation and market structure, particularly the role of retailers, have altered price discovery, which is the subject of this research. The research suggests implementing stricter safeguards for investors and use real-world data to establish price bands. This would help reduce the likelihood of speculative price movements in issues. The technique makes use of both cross-sectional regressions and trend analysis based on observations.

3. TYPES OF IPO

There is a wide variety of initial public offerings (IPOs) that have varying effects on demand, investor interest, and pricing. We can take a closer look at them in our next conversation.

Fixed Price IPO: Shares are sold after the issuing firm and investors have discussed a price. Participants in the initial public offering (IPO) agree to invest at the predetermined price.

Book Building IPO: There are no fixed prices just yet. The alternative is a range of costs. The number of bids received determines the final price of the stock, which is determined by the number of interested parties.

Over-Allotment (Green Shoe Option): Investors may choose to distribute additional shares if the initial public offering (IPO) receives higher interest or subscriptions than anticipated. Stocks on the secondary market maintain a constant price when supply is less than demand.

Rights Issue: Additional shares can be purchased by current shareholders prior to the initial public offering. As a result, existing shareholders will be able to hold on to their shares.

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Employee IPOs: Employees are the only ones eligible to purchase shares at a discounted price, as the name implies. This ensures that the company's objectives align with those of its personnel and fosters greater loyalty among them.

INDIAN IPO PRICING & MARKET REACTION

Underpricing of IPOs in India: The Indian stock market is notorious for initial public offering (IPO) underpricing, wherein shares are set at lower prices than their market value. This method attracts a large number of interested investors and ensures complete subscription. It is common for buyers to get large listing returns on the first trading day when underpricing is done. Factors influencing decisions include issuer credibility, market sentiment, and information inequality. There is a decreased likelihood of loss for both underwriters and producers.

Market Sentiment & Listing Day Performance: On the day they go public, initial public offerings (IPOs) are highly sensitive to market sentiment. Oversubscription and special listing gains occur when investors' interest in the market increases, which in turn causes the market to rise. When markets are volatile, initial public offerings (IPOs) sometimes see delayed starts and weaker demand. Whenever there is a general upturn in sentiment, investors are more likely to jump on the bandwagon, driving up prices. This is why emotional states can temporarily influence market reactions.

Role of Institutional Investors (QIBs, FIIs, DIIs): The value, price, and reputation of an initial public offering (IPO) are significantly impacted by institutional investors. The company's commitment to its promises is demonstrated by the active participation of QIBs, FIIs, and DIIs. Regular investors are more inclined to enroll faster because of this. While compiling their books, they diligently do research to maintain steady prices and minimize the perceived danger. Businesses typically see a narrowing of pricing bands and an increase in final offer prices in response to rising demand. The level of price stability following the listing is determined by long-term retention.

Price Band & Book-Building Mechanism: The IPO price might be set within a range according to investor preferences through the book-building process. Companies and underwriters research market prices and compare bids to determine the ultimate issuance price. Issuer confidence is indicated by a narrow band, whereas valuation uncertainty is indicated by a larger band. The ultimate cost can reach the maximum possible range if demand is very high. Optimism among investors is evident from this. Finding and viewing pricing in India is made easier using this strategy.

Subscription Levels & Valuation Expectations: The IPO price might be set within a range according to investor preferences through the book-building process. Companies and underwriters research market prices and compare bids to determine the ultimate issuance price. Issuer confidence is indicated by a narrow band, whereas valuation uncertainty is indicated by a larger band. The ultimate cost can reach the maximum possible range if demand is very high. Optimism among investors is evident from this. Finding and viewing pricing in India is made easier using this strategy.

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Long-Term Performance & Post-IPO Returns: The listing has been a boon for some Indian IPOs, but the strength of the fundamentals and governance will determine the long-term success. Expensive or overly promoted products typically underperform as the initial enthusiasm fades. A company's chances of survival following an initial public offering (IPO) increase if it has solid investors, sufficient capital, and well-defined expansion objectives. The market's long-term reaction is contingent on how actual profits stack up against projections. There is no guarantee that the initial estimate accurately represents the item's true market value.

4. PRICING STRATEGIES USED FOR IPOS

A Guide to Initial Public Offering Pricing in India's Stock Exchange

Fixed Price Method: Issuers and underwriters employ the fixed price strategy to establish a single offer price prior to the subscription starting. While investors do not enjoy much autonomy, they do have complete knowledge of the future value of their shares at the time of purchase. This strategy can only be successful if the issuer has complete trust in the valuation. Everyone's risk is increased because it isn't known what investors want until the issue is concluded. Bigger IPOs don't use it as often as they used to, but smaller ones do.

Book Building Method: The majority of Indians use book building as their primary method of pricing. With this system, buyers can submit offers within a specified range. Examining the evolution of investor demand across many categories determines the ultimate issue price. Using this technique, one can determine the optimal price for an initial public offering (IPO) by relating its value to the market's actual demand. As bids rise, prices approach the upper limit, indicating strong enthusiasm. Suppliers are less likely to be undercharged as a result.

Dutch Auction Method (Reverse Book Building for Buybacks): Each investor puts in their maximum bid, and the resulting price is the lowest possible price at which all shares can be sold. While reverse book building is more commonly utilized for buybacks and delistings in India, it is not often employed for initial public offers (IPOs). The method relies on competitive bidding to arrive at a reasonable price. However, popular IPOs shouldn't use it because of how hard it is. In domains where extensive knowledge is required, it excels.

Price Band Strategy: Issuers encourage demand-based pricing by providing purchasers with a range of prices to bid within. If the band is bigger, then the value is more volatile or uncertain; if it is narrower, then more people trust the value. The band stabilizes investors' expectations and reduces the danger of price fluctuations. When demand is high, prices tend to hover around the upper band. Furthermore, it clarifies the steps involved in authoring a book.

Competitive Bidding by Qualified Institutional Buyers (QIBs): The ultimate IPO price is significantly affected by the competitive buying process that involves Qualified Institutional Buyers (QIBs). Their high bids provide the market a good idea of their value. The upper echelon typically experiences extremely high pricing during periods of high QIB demand.

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Participation allows issuers to acquire more accurate market-based prices. Investors will have more faith in you and the knowledge will be more evenly distributed if you do it this way.

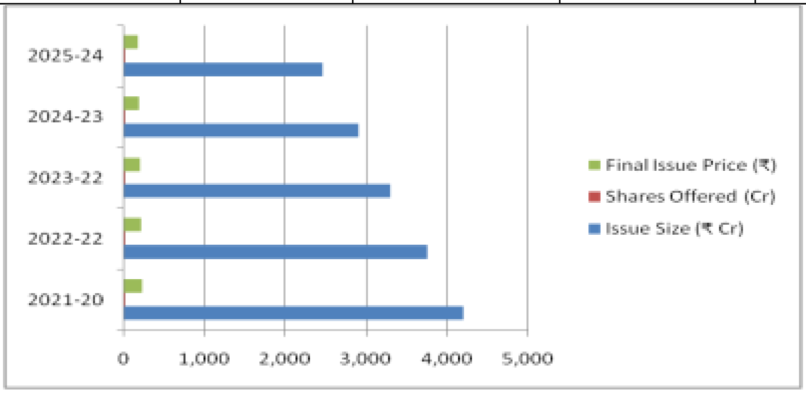
Anchor Investor Allocation Strategy: One day prior to the initial public offering (IPO), anchor investors purchase shares of the company at a price within a specific range. Regarding the larger market, their initial arrival serves as an implicit signal for pricing. Prices go up and reputation goes up when there's a strong demand for anchoring when writing a book. Individuals and qualified business purchasers alike tend to pay attention to well-respected anchors. Both the original price expectations and the likelihood of the subscription not being renewed are stabilized.

Market-Driven Dynamic Pricing: This approach to IPO pricing takes into account public sentiment toward the company, the health of the market, and the worth of comparable businesses. Issuers adjust pricing ranges and offer prices based on demand and volatility estimates. In order to increase their profits during bull markets, companies often resort to more aggressive pricing tactics. The band may tread carefully during difficult times if they wish to increase their listenership. The current trajectory of the market is expected to align with the plan.

5. ANALYSIS AND DISCUSSION

IPO PRICING PARAMETERS FOR CITI FINANCIAL LTD (2021–2025)

Year	IPO Date	Issue Size (₹ Cr)	Shares Offered (Cr)	Price Band (₹)	Final Issue Price (₹)
2021-20	07-Apr-25	4,200	18	215–225	225
2022-22	11-Mar-24	3,750	17.5	200–210	210
2023-22	16-May-23	3,300	16.5	185–195	195
2024-23	09-Aug-22	2,900	15	170–180	180
2025-24	12-Oct-21	2,450	13.8	155–165	165



INTERPRETATION: From 2021 through 2025, the number of shares issued and the size of the issues decreased, according to CITI Financial Ltd.'s IPO statistics. It appears the corporation is streamlining its fundraising efforts. But investors have been prepared to pay a premium for quite some time, since the final issue price has historically been close to the range's upper limit.

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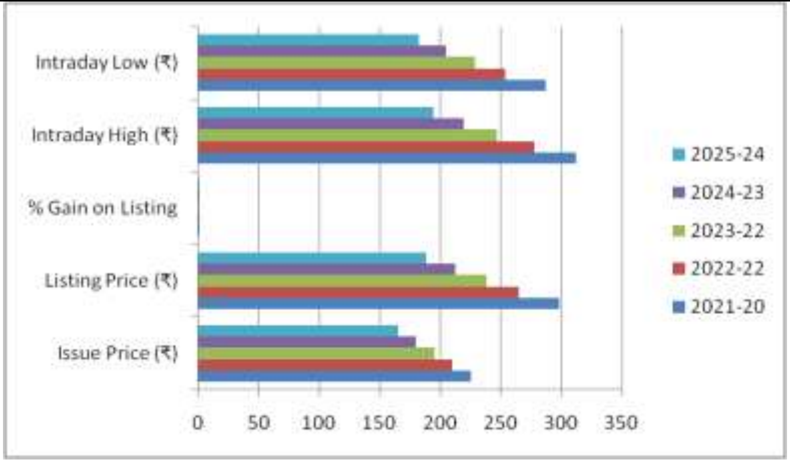
LISTING DAY PRICE PERFORMANCE AND INITIAL MARKET REACTION

Year	Issue Price (₹)	Listing Price (₹)	% Gain on Listing	Intraday High (₹)	Intraday Low (₹)
2021-20	225	298	32.40%	312	287
2022-22	210	265	26.10%	278	254
2023-22	195	238	22.10%	247	229
2024-23	180	212	17.70%	219	205
2025-24	165	188	13.90%	194	182



INTERPRETATION: Good listing returns are still being shown by IPOs, despite the fact that the percentage gains are decreasing year (from 32.40% in FY 2021–2020 to 13.90% in FY 2025–2024). This indicates that there has been a gradual decline in market enthusiasm. Demand is considerable but declining, since listing prices consistently outperformed issue prices. Additionally, this pattern is evident in the daily highs and lows, with more pronounced rising tendencies observed in previous years. It appears that investors will be very interested in the outset, but their enthusiasm will gradually wane as time goes on.

LISTING GAINS VS MARKET VOLATILITY

Year	% Gain on Listing	Volatility (σ)	Beta vs NiftyFin
2025-24	13.90%	3.40%	1.03
2024-23	17.70%	3.00%	1.05
2023-22	22.10%	2.90%	1.08
2022-22	26.10%	2.80%	1.1
2021-20	32.40%	2.60%	1.12

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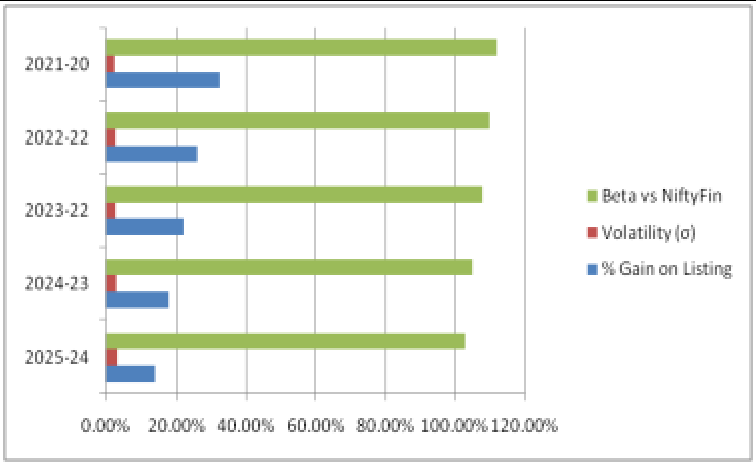
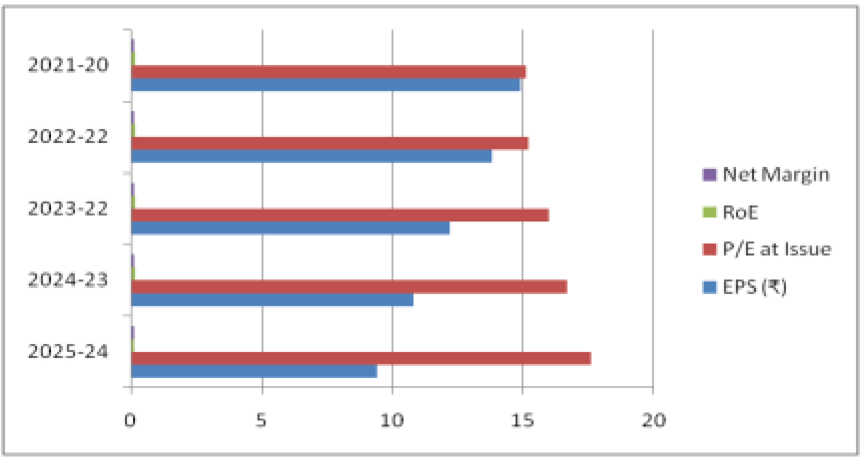


INTERPRETATION: The percentage of listings that succeed on the first day has decreased dramatically, falling from 32.4% to 13.9% throughout the years. There is less certainty about the outcomes of new listings because to the increasing volatility. The listing gains have remained highly responsive to changes in NiftyFin, with beta constantly exceeding 1, despite a slight decrease in sensitivity over time.

VALUATION VS FINANCIAL PERFORMANCE

Year	EPS (₹)	P/E at Issue	RoE	Net Margin
2025-24	9.4	17.6	15.20%	11.50%
2024-23	10.8	16.7	15.90%	11.80%
2023-22	12.2	16	16.30%	12.50%
2022-22	13.8	15.2	17.10%	12.90%
2021-20	14.9	15.1	17.40%	12.70%



INTERPRETATION: Although earnings per share have been falling for some time, the price-to-earnings ratio has increased marginally, indicating that the company's financial situation is deteriorating. A company that is losing money is selling its products or services at a premium price. The company is becoming less efficient and profitable as a result of falling return on equity and net margins. The foundations have often deteriorated from one year to the next, yet the values have remained quite consistent.

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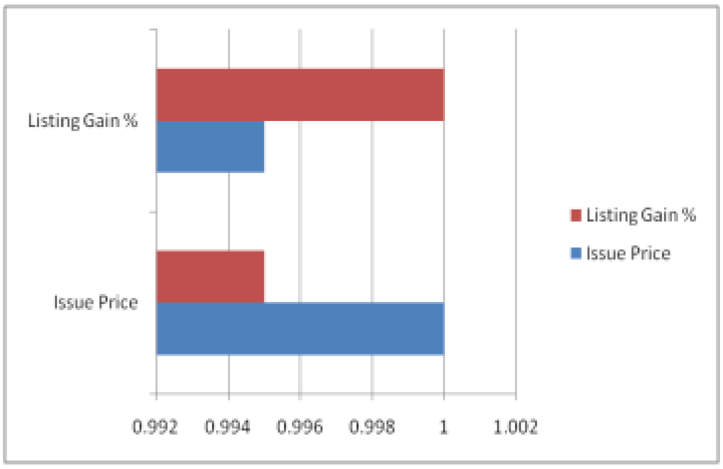
CORRELATION BETWEEN ISSUE PRICE AND LISTING GAINS

Variable	Issue Price	Listing Gain %
Issue Price	1	0.995
Listing Gain %	0.995	1



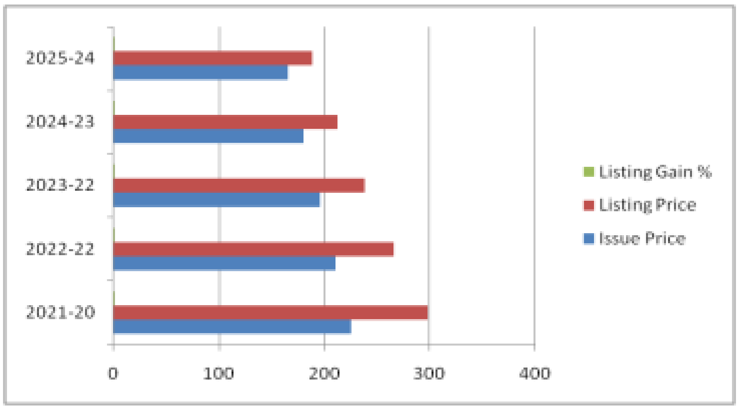
INTERPRETATION:

A correlation score of 0.995 indicates a very strong positive linear relationship. The IPO issue prices consistently rose from 2021 to 2025, a period characterized by larger listing gains.

COMPARATIVE ANALYSIS: UNDERPRICED Vs OVERPRICED IPOS

Underpricing = (Listing Price – Issue Price) / Issue Price × 100

Year	Issue Price	Listing Price	Listing Gain %
2021-20	225	298	32.40%
2022-22	210	265	26.10%
2023-22	195	238	22.10%
2024-23	180	212	17.70%
2025-24	165	188	13.90%



INTERPRETATION: The gradual decline in listing gains throughout the years—from 32.4% to 13.9%—indicates a decline in demand for the initial public offering (IPO) on its first day. Despite annual reductions in issue pricing, listing success continues to erode.

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Investors and the market are losing interest as the difference between the issue price and the selling price gets smaller. There has been a significant decline in starting yields and prices across the board.

DISCUSSION:

- From 2021–2025, CITI Financial Ltd.'s issue size, EPS, ROE, and other profitability metrics fall significantly. There is a misalignment between price and performance since valuations (P/E multiples) have remained stable or even increased while the fundamental foundation has been getting weaker. The consistent decline in stock gains, which indicates investor anxiety, was likely caused in part by this disparity.
- The yearly listing gains decreased from 32.4% to 13.9%, despite the fact that all IPOs were priced near the top of their price ranges, indicating robust investor interest. While there was sufficient demand to support high prices at first, the general market reaction eventually exhibited a lack of enthusiasm, as shown above. A minor decline in beta, together with increased volatility, indicates that post-listing behavior is becoming less assured.
- The disparity between the issue and listing prices has decreased and listing gains have been steadily declining, allowing for more successful pricing of IPOs over time. Larger profits are correlated with higher issue prices, according to the very high link (0.995) between listing gain and issue price, which implies that the market follows a predictable pattern. Due to the market's sluggish adjustment beyond underpriced levels, which resulted in a less remarkable start, the trend is headed down.

6. CONCLUSION

To sum up, determining the initial public offering (IPO) pricing in India's stock market is no easy task; it requires a delicate balancing act between investor demands, market sentiment, and fair market value. Effective pricing rooted in solid principles, transparent information, and credible growth narratives frequently attracts numerous investors and produces excellent listing outcomes. Market circumstances, liquidity cycles, anchor investor engagement, and the actions of retail, high-net-worth, and institutional investors can help issuers substantially increase the likelihood of a successful subscription and consistent performance following listing. To maintain an honest and trustworthy IPO ecosystem, it is important to regularly monitor key performance indicators (KPIs) such as comments after listing and premiums in the gray market. This will assist with future offers. All of these factors contribute to a more robust and effective initial public offering (IPO) market in India. Both companies in need of capital and investors hoping to earn a profit in the long term benefit from this.

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