



# An Empirical Study on Influence of Grey Market Premium and listing gains on Investment in Initial Public Offering

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## ARTICLE INFO

## ABSTRACT

Grey market trading always involves short-selling as securities are not yet available. Since legal and institutional environment is less developed in emerging markets, the functioning of grey markets is of interest to policy makers and financial economists. Second, retail investors participate to a greater extent in IPOs of emerging markets, ostensibly due to the relative paucity of institutional investors.

Since prior research has shown that retail investors are more prone to overreaction, it is useful to examine if grey market prices proxy for investor sentiment. Finally, if grey markets are associated with price distortion in initial trading prices, then investors can potentially exploit this by using trading strategies. Our empirical results show that grey market prices are predictable and that these prices are associated with initial listing returns. Furthermore, selling at grey market prices and subsequent short-covering is shown to be profitable.

Demand for Initial Public Offering (IPO) has been very high in the Indian market in 2021-2022. Here retail investors have shown their great interest; the quota of retail investors is first oversubscribed on the very first day of an IPO. In this article, we will know what an IPO in the primary market is. When a new issue comes onto the market, so what is the problem in front of him? We are also a descriptive study of will, the grey market.

What is premium and whether the listing price of IPO is known correctly from GMP or not? In this, we will study all the IPOs that have come from 1 January 2021 to 31 December 2022. From our research paper, it will be helpful to know whether listing can be gained by looking at the grey market. Does the price of the grey market affect the listing price of the IPO?

**Keywords:** listing gains, initial public offering, discount price, market premium, grey market

## 1. Introduction

As of 31<sup>st</sup> December 2022, BSE has 6,655 listed companies. When the company issues an IPO, it decides the price band of the IPO itself. Now the company can keep it for more than its value and also less. A range of price

bands is kept. There is a price; we call it the cut-off price. When an IPO is oversubscribed, all apply at the cut-off price. If the company keeps a higher price band, then investors are less attracted to it. Since the lot size will be less than the higher price band, if the lot size is less, then the number of shares will be less. Due to this, the opportunities for listing gain will also be reduced.

Retail investors just need to gain a listing in the IPO market in India. Now the question is whether we can first find out which IPO listing will give us a gain or not. By the way, if you see it right, GMP is illegal. GMP is such a market where, before the arrival of the IPO, its buying and selling starts. All this happens on trust and this price is updated on different websites. This rate changes every day according to the trade and as long as it keeps on changing, the listing of the IPO is completed.

Corporation can raise money from general public investors through an IPO, although there is often a share premium for present private investors, the transition from a private to a public firm can be a crucial period for private investors to completely realise rewards from their investment. Additionally, it enables public investors to take part in the sale.

Stock controls a company's ownership. Because the business is private, only a select few stockholders possess the stock, which is not made available to the public. These shares are either sold to the public at an IPO or additional shares are issued to do this, a process known as dilution. If more shares are issued, the original shareholders will suddenly own less of the company, with the general public filling the gap.

By first buying the shares that will be offered for public exchange and taking on the associated risk, an investment bank establishes the worth of the company. The valuation is divided among the number of shares that have previously been authorised by the corporation itself.

When a company's resources are insufficient to support growth on its own, IPOs are pursued. Alternatively, investors may push for an IPO in order to sell their shares for cash. Before the IPO, a company may not be worth anything in liquid cash, which happens frequently to venture-funded software startups. The IPO is then a means for the investors to recover their money in the lack of revenue.

If a company doesn't want to divulge particular information, it may be reluctant to go public because filing an IPO necessitates disclosing every aspect of its financial situation. The profitability of the business may depend on output and efficiency projections that it is not required to disclose because it is a private corporation. Also, there are high costs involved—possibly millions of dollars. However, bad press resulting from a poor performance can compound and harm a company even more.

## **2. LITERATURE REVIEW**

Chandu, V. , Reddy, K.P. , Srilakshmi, S. and Shifaly 2022. Pre-investment perception of investors' towards security market in Indian context. *International Journal of Professional Business Review*. 7, 2 (Aug. 2022), e0416. DOI:<https://doi.org/10.26668/businessreview/2022.v7i2.416>.

Suri A. and Hada. B. (2018) examined the performance of 107 initial public offers (IPOs) on the Indian stock market for their paper, "Performance analysis of initial public offerings in India." Between June 2011 and June 2017, the study took place. The two main performance metrics that the researchers utilised to validate the IPOs were the over-subscription ratio of the IPO and the listing day gains generated by the IPO. Comparing the IPOs' performance between January 2011 and May 2014 and June 2014 and June 2017 was the study's main objective. The analysis's findings indicate that the initial public offers (IPOs) that were conducted between June 2014 and June 2017 performed considerably differently from those that were issued between June 2014 and May 2011. Also, the quantity and amount of IPOs throughout the course of the two years were investigated.

N. Tanted, S. Mustafa (2019) To ascertain the discrepancy in returns between the IPO issuing price, Listing day opening price, and closing price, a study titled "A Study of Returns Between IPO Issue Price and Listing Day Price" was conducted in 2019. The aim of the study was to assist investors in making the choice between buying a securities through an initial public offering (IPO) and doing so directly on the secondary market. Data is gathered for the analysis of all IPOs released over a ten-year period. According to the data, there was no statistically significant difference between the price that was offered in the IPO, the listing price on the first day, and the listing price on the last day. The open price listing day's median price was higher than the IPO's price. The average closing price was higher than the open price on the listing day. The mean value for the closing price on the listing day was likewise high when the IPO provided a high price.

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In their paper titled "Determinants of Long-Term Performance of Initial Public Offerings: Evidence from India," Dhamija, S., and Arora, R. K. (2017) analysed the long-term performance of 377 initial public offerings (IPOs) made by Indian companies between 2005 and 2015. The study's goals are to determine whether Indian IPOs outperform or underperform the market as a whole over the long term and to identify the key variables that affect this result. Despite initially exhibiting notable underperformance over the long term, the results demonstrate that Indian IPOs outperformed the general market.

Between 2005 and 2015, the average initial excess returns (IERS) on initial public offerings (IPOs) on the main board was around 22%. Nonetheless, 37% of the IPOs did offer unfavourable IERS. Initial public offerings (IPOs) underperformed the sector as a whole, producing a 57.33 percent abnormal buy-and-hold return (BHAR) in the 36 months following listing. Over a 36-month holding period, just 38 out of 377 IPOs (or 10% of the total) outperformed the benchmark index. The issuer type (government-owned or private), lead manager credibility (LMP), promoter retention, and issue size are the main issue elements that affect the long-term performance of initial public offerings (IPOs) in India.

Patel, A. (2016) Under the heading "Determinants of Listing Day Performance of IPOs: Study from Indian Equity Market," research based on the performance of 80 initial public offerings (IPOs) in India from January 2011 to June 2016 listed on the National Stock Exchange (NSE), India, was released. Initial public offerings (IPOs) underperformed the sector as a whole, producing a 57.33 percent abnormal buy-and-hold return (BHAR) in the 36 months following listing. Over a 36-month holding period, just 38 out of 377 IPOs (or 10% of the total) outperformed the benchmark index. The issuer type (government-owned or private), lead manager credibility (LMP), promoter retention, and issue size are the main issue elements that affect the long-term performance of initial public offerings (IPOs) in India.

a study by Jampala, R. C., Lakshmi, P. A., and Dokku, S. R. on the factors affecting initial public offerings (IPOs) on the Bombay Stock Exchange (BSE), India: between 2007 and 2013. The performance of India's IPOs between 2007 and 2013 was examined in this study. The main result of the study was that there was underpricing on the first trading day. The researcher has demonstrated that, in contrast to past studies, the degree of underpricing has significantly decreased. The study also found that first public offerings are impacted by issue variables. It has been noted that IPO performance on the listing day is significantly influenced by the face value of the shares and the level of over subscription.

An investigation by Bansal & Khanna found that initial public offerings (IPOs) priced through the book build were more underpriced than those priced through the fixed price option. This difference can be seen in the magnitudes of underpricing for the two types of IPOs (2012).

### 3. MEANING OF GMP

Gray market premium is such a market, which does not exist in a formal form. This is a market where the listing premium of an IPO is known even before its listing. This price depends on the demand and supply. Many people have described GMP in many different ways.

An unregulated market for financial securities is known as a grey market. Trading on the grey (or "grey") market typically takes place after a stock has been taken off the market or before the start of official trading for new securities. Because it is a "when-issued" market, the grey market enables the issuer and underwriters to evaluate demand for a new offering (i.e., it trades securities that will be offered in the very near future). Although it is an unofficial business, the grey market is lawful.

Black Market Before to its formal introduction for trading on the stock exchange, IPOs are offered for sale or purchase on an unofficial market. There are no regulations surrounding this unregulated over-the-counter market because it is one. Cash is used exclusively for all personal transactions. No third-party companies, such as SEBI, the stock exchange, or brokers, are associated with or supporting this transaction. Due to the lack of a standardized trading platform or set of standards, grey market trade only takes place within a small group of individuals.

#### 4. OBJECTIVES

1. To know about Grey Market Premium.
2. To study the Factor influencing of IPO listing gain.
3. To study the Grey Market Premium Impact on investment decision.

#### 5. RESEARCH METHODOLOGY

In this study we can see how listing gains influencing the investor to invest in IPO We have taken the history of IPO from websites like NSE, BSE, SEBI, Angle broking, money control etc. As we know that there is no official source of GMP, we have taken it from different websites. Based on the expectations the investors will attract to invest in IPO to gain the listing day gains.

##### • Sources of data

Retail investors in Vijayawada City were surveyed using a well-structured questionnaire to get primary data.

A variety of sources, including journals, magazines, publications, reports, books, articles, research papers, and websites, were used to gather the secondary data.

##### • Sample

Sample is drawn from the population. There are different types of retail investors in Vijayawada.

##### • Sample technique

The primary data is collected using convenience sampling

**Table- 1 Profile of Investors**

S. No	Particular	FREQUENCY (N=828)	PERCENTAGE
<b>Gender</b>			
1	Male	509	61.47
2	Female	319	38.53
<b>Age (in years)</b>			
1	Under 25	150	18.12
2	25-44	498	60.14
3	45-60	146	17.63
4	Above 60	34	4.11
<b>Marital Status</b>			
1	Single	249	30.07
2	Married	579	69.93
<b>Occupation</b>			
1	Business	73	8.82
2	Job in Private Sector	494	59.66
3	Job in Public Sector	32	3.86
4	Professional	172	20.77
5	Others	57	6.88
<b>Monthly Income (in Rupees)</b>			
a	0- 15,000/	150	18.12
b	15,001 – 30,000/	285	34.42
c	30,001 – 45,000/	215	25.97
d	> 45,000/	178	21.50

##### **Interpretation:**

The information regarding the demographic profile of investors is provided in table 1 above. Just 38.53 percent of the respondents in this study are women, with men making up the majority (61.47%). The age range of 25 to 44 years accounts for over 60% of the respondents, followed by the under-25 age range (18.12%) and the 45 to 60 age range (17.63%). Only a very small percentage of responses are over 60.

Thirty percent of respondents are single, compared to over 70 percent of married respondents (either unmarried or divorced or widowed). A little over 60% of respondents work in the private sector, while 20.77% of respondents hold professional occupations. The remaining job categories include fewer than ten percent of respondents, with business persons making up the majority of this group (8.82%).

The bulk of respondents who are making the investment have monthly incomes of at least Rs. 15,000. A monthly income of Rs. 15,000 to 30,000 is earned by 34.42 percent of respondents, followed by Rs. 30,000

to Rs. 15,000 by 25.97 percent and Rs. 45,000 and above by 21.50 percent. Just 18.12% of respondents who invest have an annual income of less than Rs. 15,000

In the current study, the majority of respondents (61.47%) reported having a family of three to four people, while 23.67% reported having a family of five to six people. Less than 10% of responders are in the other family size categories.

Inferred from the preceding table's information on the respondents' family size is that 45.77 percent of respondents do not have children in their household, compared to 46.14 percent of respondents who have one to two children. The percentage of respondents in the remaining categories is quite low.

The majority of respondents (49.64%) invest less than Rs. 15,000 annually per person for the Invest, while 31.64 percent invest between Rs. 15,000 and Rs. 30,000 annually per person. The remaining 20% of survey participants invest more than Rs. 30,000 per person each month.

## 6. FACTORS AFFECTING IPO 'S LISTING

- Issue Size-** When the company issues its IPO. So the size of the IPO also affects its listing price. So the company will have to face a lot of problems in filling it. If it is less subscribed. Then we will get to see less listing gain on it.
- Company's Financial Position-**The financial position of any company also affects the listing price of its IPO. If the company has a good position, then investors will invest good money in it. So we can say that this factor also affects the listing price.
- Price Band-** the shares of the IPO are bid, we call that range the price band. If the company keeps this more. So the investment might be less. So the price band also affects the listing.
- GMP-GMP** is an informal market. If the IPO price is not doing well in this, then it will also affect the listing. If it is good then investors will invest more.
- Time-**It is also very important. If the IPO of a company is coming when the market is not doing well. Even if that company is not profitable, its listing price will be affected.

**Table: 2 IPO HISTORY**

Date	IPO Name	Cut off Price	Listing Price	Lot Size	GMP
16/02/22	Vedant Fashions	866	950	17	-12
08/02/22	Adani Wilmar	230	274	65	23
31/01/22	AGS Transact	175	176	85	-6
31/12/21	Cms Info	216	242.95	69	-8
28/12/21	Supriya Lifesci	274	425	54	130
27/12/21	HP Adhesive	274	319	50	80
24/12/21	Data Pattern	585	864	25	320
22/12/21	Metro Brands	500	436	30	20
21/12/21	CE Info	1033	1581	14	700
20/12/21	Shriram Prop.	118	94	125	-15
17/12/21	RateGain Travel	425	364.80	35	10
14/12/21	Anand Rathi	550	584.45	27	50
13/12/21	Tega Industries	453	753	33	300
10/12/21	Star Health	900	903	16	-15
26/11/21	Tarsons Product	662	700	22	180
23/11/21	Latent View	197	530	76	300
18/11/21	One 97 Paytm	2150	1955	6	-30
18/11/21	Sapphire Foods	1180	1311	12	130
15/11/21	Sigachi Ind.	163	575	90	200
15/11/21	SJS Enterprises	542	514	27	69
15/11/21	PB Fintech	980	1444	15	16
12/11/21	Fino Payment	577	548	25	0
10/11/21	FSN E-co Nykaa	1125	2001	12	750

**Table: 3 Best 10 IPOs of 2021 (By Listing Gains)**

#	Issue Name	Offer Price (Rs)	Listing Day - Close Price (Rs)	Listing Day Gain / Loss (%)	Listing Date	Issue Size (Rs Cr)	Total Subscription (Rs in Crores)	Oversubscribed in (x)
1	Sigachi Industries Limited	163	603.75	270.40	Nov 15, 2021	125.43	12782.63	101.91
2	Paras Defence And Space Technologies Limited	175	498.75	185.00	Oct 01, 2021	170.78	51960.47	304.26
3	Latent View Analytics Limited	197	488.60	148.02	Nov 23, 2021	600.00	195891.24	326.49
4	Tatva Chintan Pharma Chem Ltd	1083	2310.25	113.32	Jul 29, 2021	500.00	90179.30	180.36
5	Indigo Paints Limited	1490	3118.65	109.31	Feb 02, 2021	1176.00	137621.16	117.02
6	G R Infraprojects Limited	837	1746.80	108.70	Jul 19, 2021	963.28	98811.47	102.58
7	FSN E-Commerce Ventures Limited	1125	2206.70	96.15	Nov 10, 2021	5351.92	437673.41	81.78
8	MTAR Technologies Limited	575	1082.25	88.22	Mar 15, 2021	596.41	119756.31	200.79
9	Go Fashion (India) Limited	690	1252.60	81.54	Nov 30, 2021	1013.61	137301.73	135.46
10	Clean Science and Technology Ltd	900	1585.20	76.13	Jul 19, 2021	1546.62	144474.76	93.41

**Table: 4 Best 10 IPOs of 2022 (By Listing Gains)**

#	Issue Name	Offer Price (Rs)	Listing Day - Close Price (Rs)	Listing Day Gain / Loss (%)	Listing Date	Issue Size (Rs Cr)	Total Subscription (Rs Crores)	Oversubscribed in (x)
1	DCX Systems Limited	207	308.80	49.18	Nov 11, 2022	500.00	34895.75	69.79
2	Harsha Engineers International Ltd	330	485.90	47.24	Sep 26, 2022	755.00	56397.97	74.70
3	Hariom Pipe Industries Limited	153	224.70	46.86	Apr 13, 2022	130.05	1031.30	7.93
4	Electronics Mart India Limited	59	84.45	43.14	Oct 17, 2022	500.00	35963.25	71.93
5	Syrma SGS Technology Ltd	220	313.05	42.30	Aug 26, 2022	840.00	27392.90	32.61
6	Ruchi Soya Industries Ltd	650	924.85	42.28	Apr 08, 2022	4300.00	15467.96	3.60
7	Dreamfolks Services Limited	326	462.65	41.92	Sep 06, 2022	562.10	31858.94	56.68
8	Campus Activewear Limited	292	378.60	29.66	May 09, 2022	1400.14	72461.73	51.75
9	Global Health Limited	336	415.65	23.71	Nov 16, 2022	2205.57	21138.40	9.58
10	Uma Exports Limited	68	84.00	23.53	Apr 07, 2022	60.00	460.39	7.67

**Table: 5 Factors Investment decisions**

S.No	Investment decisions	Mean Values (investment)			p-value	Result
		Yes (n=264)	No (n=564)	Overall (N=828)		
1	Investment objective	4.12	4.14	4.13	0.5958	Accepted
2	Return on investment	3.72	3.80	3.77	0.1513	Accepted
3	Return frequency	3.43	3.37	3.39	0.3332	Accepted
4	Involved risks	3.39	2.90	3.06	<.0001	Rejected
5	Maturity period	3.28	2.59	2.81	<.0001	Rejected
6	Tax benefit	2.65	2.01	2.21	<.0001	Rejected
7	Volatility	2.90	2.44	2.59	<.0001	Rejected
<b>Overall Mean Score</b>		<b>3.36</b>	<b>3.04</b>	<b>3.14</b>	<b>0.0002</b>	Rejected

**Van der Waerden Scores (Normal) for Investment decisions**

Investment decisions	N	Mean	Expected Under H <sub>0</sub>	Std Dev. Under H <sub>0</sub>
Yes	264	3.36	0.0	12.743518
No	564	3.04	0.0	12.743518

Chi-Square	28.0761
DF	1
Pr > Chi-Square	0.0002

**Interpretation:**

The above table summarises the Van der Waerden Scores. Score 7,7a indicates that the p-value (0.0002) is less than 0.05, supporting the premise that factors influencing investment decisions don't significantly vary from investment decision.

**Table 6: Motivates you to invest in IPO**

S.No	Motivates you to invest in IPO	Mean Values (motivates you to invest in IPO)						p-value	Result
		Investment objective (n=148)	Return on investment (n=231)	Return frequency (n=24)	Maturity period. (n=131)	Tax benefit (n=294)	Overall (N=828)		
1	Listing gains	4.22	4.31	4.12	3.92	4.33	4.23	<.0001	Rejected
2	Grey market premium	3.95	3.71	3.79	3.65	3.66	3.73	0.0037	Rejected
3	Long-term gains	3.45	3.46	3.42	3.35	3.33	3.39	0.4957	Accepted
4	Speculation	2.83	3.35	3.68	3.19	2.66	3.00	<.0001	Rejected
5	Got to high profits in IPO Listing	2.50	3.18	3.51	3.06	3.00	2.99	<.0001	Rejected
6	No listing gains	2.62	2.56	3.04	1.98	2.66	2.53	<.0001	Rejected
7	Long term investor	2.44	2.96	3.32	2.51	2.66	2.70	<.0001	Rejected
<b>Overall Mean Score</b>		<b>3.14</b>	<b>3.36</b>	<b>3.55</b>	<b>3.09</b>	<b>3.19</b>	<b>3.22</b>	<b>&lt;.0001</b>	

**Table 6a: Van der Waerden Scores (Normal) for Most influencing factor to invest**

Most influencing factor to invest	N	Mean	Expected Under H <sub>0</sub>	Std Dev. Under H <sub>0</sub>
Loves Stock performance	148	3.14	0.0	10.47698
No one can comprehend my bizarre thoughts.	231	3.36	0.0	12.264250
Is not interested in short term exit	24	3.55	0.0	9.979295
I'm content with how I appear.	131	3.09	0.0	13.085554
Is interested in many things	294	3.19	0.0	4.587557

Chi-Square	59.9910
DF	4
Pr > Chi-Square	<.0001

**Interpretation:**

Van der Waerden scores are summarised in the tables above. Score 6,6a shows that the p value (.0001) <0.05, rejecting hypothesis that the "most influencing factor to invest doesn't significantly vary with the purpose of investment" at the 0.05 level of significance. This means that there are significant differences with the purpose of investment.

**Table 7 Why Do People Trade in Grey Markets**

<b>S.No</b>	<b>Influencing factor</b>	<b>FREQUENCY (N=828)</b>	<b>PERCENTAGE</b>
<b>Influencing factor</b>			
1	Trading in the grey market has always been in trend	17	2.05
2	It is an excellent money-making opportunity	32	3.86
3	Traders and investors who believe that a stock has the potential to list at high valuations	66	7.97
4	Long term investor	232	28.02
5	Day trader	272	32.85
6	rates may be volatile	209	25.24
<b>Category of investor</b>			
1	Long term investor	389	46.98
2	Day trader	439	53.02
<b>Most influencing factor cause for getting losses in investment</b>			
<b>S.No</b>	<b>Influencing factor</b>	<b>MEAN VALUE</b>	<b>RANK</b>
1	No one can comprehend my bizarre thoughts.	3.44	3
2	I've got a bad temper	3.55	2
3	Generally, I have trouble coming up with new solutions to problems.	4.11	1
4	I frequently get depressed	2.48	4
5	I lack self-confidence	1.43	5
<b>Investment avenue</b>			
1	Bank deposits	148	17.87
2	Insurance saving plans	231	27.90
3	Security market investments	24	2.90
4	Mutual funds	131	15.82
5	Derivatives	294	35.51
<b>Factors influence you more to take a trading decision</b>			
<b>S.No</b>	<b>Trading decision</b>	<b>MEAN VALUE</b>	<b>RANK</b>
1	Govt Policies	3.92	5
2	Friends' opinion	3.91	4
3	Research Reports	2.69	1
4	Broker's suggestions	3.35	3
5	National or International news	3.98	6
6	Newspaper Journals & Magazines	3.17	2
<b>Analysis is to take investment decision</b>			
1	Fundamental analysis	264	31.88
2	Technical Analysis	564	68.12
<b>Influence the trading decision</b>			
1	Investments Related Websites	583	70.41
2	Brokers / Analysts	116	14.01



	Forecast		
3	Investor Forum	97	11.71
4	TV Channels	32	3.86
<b>Investment decision relating to</b>			
1	Long Term	198	23.91
2	Short Term	500	60.39
3	Speculation	130	15.70
<b>Number of companies in which investment is made</b>			
1	Less than 5	90	10.87
2	5-10	738	89.13
<b>Success ratio of your previous IPO</b>			
1	Got to high profits in IPO Listing	313	37.80
2	No listing gains	515	62.20
<b>Making an investing decision solely based on grey market IPO rates is dangerous.</b>			
1	Agree	443	53.50
2	Disagree	385	46.50

## 7. CONCLUSION

- Grey market premium (GMP) is an informal market, this is illegal by SEBI. But this expectations happens on the internet, the over subscription by experts, retail investors, institutional investors some time foreign institutional investors, etc.
- The listing price of the IPO can be ascertained in advance. Whose GMP is HIGH? His listing is also up and the low one, his listing is below.
- So by doing this study we found that with GMP we can already estimate the listing price of IPO. During IPO lot of the investors will invest their money for long term gains as well as listing gains in the grey market.
- But there is a risk factor that is may be gain the listing gains some time may not possible to get it, here Retail investors also shows great interest.
- But retail investors are not in the position to bear too much loss, if they are not get the listing gains in grey market. Then they will lose the confidence on IPO.

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