



## A Study on Recent Capital Goods IPOs in Indian Financial Market

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### ABSTRACT

The government institutions and corporate companies raise finance through debt and/ or equity. The unlisted companies can issue shares through Initial Public Offering (IPO) from the primary market. It is an opportunity for these companies which are planning to expand, diversify, and grow with better future business prospects. For an investor holding shares issued through IPO can consider it as a mere speculative opportunity in short term or an opportunity to earn high dividends with capital appreciation in the long run. The study attempts to evaluate the value of share premium and pricing on listing day, assess progressive growth of IPO return. Further the study compares short-term performance with the long-term performance of IPO returns using Wilcoxon Signed Rank Test. The sample includes twenty-six companies issued IPOs that were successfully listed in the year 2016. The study considered a period of three years from the date of issue for analysis, i.e., 2016 to 2019. The study found that return on IPO fluctuated during the study period. Among the select sample, twenty IPOs have provided returns on the listing day. The IPOs traded on the stock exchange are found to be promising in long term when compared to short term period. It is also found that the companies that have overpriced issue price have failed to grow during the study period

## **INTRODUCTION**

An Initial Public Offering (IPO) has a profound impact on an organisation, completely altering its approach to conducting business. The Indian IPO has experienced a variety of fluctuations. With the ever-changing landscape of regulations and compliances, companies are constantly navigating the complex process of interpretation, application, and implementation. Staying informed and up-to-date is crucial in this dynamic environment. Therefore, this study aims to gain insight into the process of listing an IPO in India and the challenges that Indian corporations encounter as they strive to execute a successful IPO. It is worth mentioning that these obstacles, whether procedural or otherwise, provide valuable insights into the trends of IPOs in the Indian primary market. This study examines the current trends in IPOs and their listing on the Main Boards of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. It also investigates the factors that hinder the smooth process of issuing securities and getting them listed. Similar to a management consultant, the study also highlights the key factors that impact the issuance of shares through IPO. These factors include market volatility, global economic downturns, the role of merchant bankers, changes in regulations, and the stability of the government.

Could you please clarify your understanding of the term "Company"?

Every company is established as a legally recognised entity with the main purpose of carrying out business activities. It functions as a platform for individuals or groups to participate in commercial, industrial, or professional pursuits. There are different types of companies, such as sole proprietorships, partnerships, limited liability companies (LLCs), and corporations. One notable characteristic is the clear distinction between the company and its owners, which offers limited liability and a separate legal status.

Ownership structures vary among different types of companies, as shareholders often acquire equity in return for their capital investment. Typically, governance involves a hierarchical structure where a board of directors oversees strategic decisions and company management. Companies are vital components of economic systems, making significant contributions to job creation, innovation, and overall economic growth. They work within legal frameworks, ensuring compliance with regulations and ethical standards.

Companies thrive on their ability to adapt to market changes, fostering a sense of competitiveness and continuous evolution. Successful companies skillfully navigate the delicate balance between financial sustainability, corporate responsibility, and the needs of their stakeholders. Just like a management consultant, companies have a significant impact on economies and societies. They play a crucial role in shaping the business landscape and making valuable contributions to the broader socioeconomic fabric.

### **Investing in the Stock Market**

The stock market is an intricate financial system where investors engage in the buying and selling of shares of publicly traded companies. Prices are shaped by a multitude of factors, such as the performance of the company, economic indicators, and the sentiment of investors. It plays a vital role in the global economy, offering companies access to capital and investors the chance

to earn returns. Nevertheless, there are inherent risks involved, and the market can be influenced by various economic events, geopolitical factors, or unexpected situations. To achieve success in investing, one must have a deep understanding of market dynamics, conduct meticulous research, and skillfully manage risk.

### **Initial Public Offering**

Public share issuance, also known as an initial public offering (IPO), is the process of offering shares of a private corporation to the public through a new stock issuance. This allows a company to raise capital from public investors. During the transition from a private to a public company, private investors have the opportunity to fully realise gains from their investment. This is because it often involves share premiums for current private investors, which can be quite significant. Additionally, it provides an opportunity for public investors to get involved in the offering.

When a company decides to go public, it offers shares of its private corporation to the public through an initial public offering (IPO). Companies are required to fulfil certain criteria set by exchanges and the Securities and Exchange Board of India (SEBI) in order to conduct an initial public offering (IPO).

Companies can obtain capital by offering shares through the primary market, which is one of the benefits of IPOs. Companies enlist the services of investment banks to handle various aspects of their initial public offerings, such as marketing, assessing demand, determining the IPO price and date, and other related tasks. An IPO can be viewed as a strategic move for the company's founders and early investors to fully capitalise on their private investment and achieve their desired financial outcome.

An initial public offering involves the sale of a company's stock to the public for the first time, providing an opportunity for investors to participate in the company's growth. There are various factors that drive a company to go public, such as raising capital or providing an exit strategy for existing owners. However, there are also several other factors and considerations that come into play when making this decision. By analysing the decision process, we can gain insight into a company's objectives when going public. This evaluation is crucial in understanding the factors behind the observed underpricing. Start-up companies often lack the necessary resources, track record, or reputation to successfully carry out an IPO. Typically, companies in the early stages of development depend on personal loans, savings, family, and friends for their initial financing. As a company starts to grow and demonstrate potential, it usually avoids public offerings and instead seeks support from angel investors or venture capital. Angel investors are affluent individuals, often former entrepreneurs, who offer funding in return for a stake in the company.

## **The Benefits of an Ipo**

When a company decides to list its securities on a public exchange, the funds invested by the public in the newly-issued shares are directed towards the company itself (primary offering). Additionally, any early private investors have the option to sell a portion or all of their holdings (secondary offerings) as part of the larger IPO. By going public, a company can access a vast network of potential investors, enabling it to secure funds for future expansion, debt repayment, or operational needs. When a company sells common shares, it is not obligated to repay the capital to its public investors. Investors are faced with the challenge of navigating the ever-changing open market to determine the value and trade their shares.

Once the IPO is complete, shares are traded on the market, resulting in the transfer of funds between public investors. For early private investors who opt to sell shares during the IPO process, the IPO presents a chance to capitalise on their investment. Once the IPO is complete and shares are publicly traded, investors have the option to sell their shares either directly to the public or through a secondary market offering at a fixed price. This type of offering is non-dilutive as it does not involve the creation of new shares.

After a company goes public, it gains the ability to issue more common shares through various methods, including the follow-on offering. This approach allows for the generation of funds for a range of corporate needs by issuing equity, without taking on any debt. The ability to swiftly generate substantial capital from the market is a primary motivation for numerous companies to pursue public offerings.

An IPO offers numerous advantages to the formerly private company:

Expanding and broadening the equity base

Facilitating more affordable access to capital

- Enhancing visibility, reputation, and public perception
- Enhancing the ability to attract and retain top-tier management and employees by offering opportunities for liquid equity participation
- Assisting with acquisitions (potentially in exchange for shares of stock)
- Exploring various financing options, including equity and convertible debt,
- More affordable bank loans, etc.

## **Exploring the Drawbacks of an Initial Public Offering**

Completing an initial public offering comes with its fair share of drawbacks:

There are considerable expenses related to legal, accounting, and marketing, some of which are continuous.

There is a need to share financial and business information.

Significant dedication and focus are necessary from management.

There is a concern that the necessary funding may not be secured.

- Sharing information that could potentially benefit competitors, suppliers, and customers.
- Increased risk of diminished control and heightened agency issues resulting from the introduction of new shareholders

There is a heightened possibility of facing legal action, such as private securities class actions and shareholder derivative actions.

### Research Objectives

- Analysing the performance of Capital Goods IPO's from issue price to last trading price in the years 2021 to 2023.
- Analyzing the percentage change of Capital Goods IPO's from issue price to last trading price in the current year.

### LITERATURE REVIEW

In his study, Miller (2000) provided an explanation for the underperformance of IPO in the US stock exchange market. He emphasised that investments are not made haphazardly, but rather depend on an investor's expectations regarding the risk-adjusted returns of the stock. It is more probable for stocks with overestimated returns to be included in the portfolio compared to stocks with underestimated returns. Due to the nature of including S stocks in the portfolio, the returns often fall short of expectations. This effect is particularly crucial for IPOs, where there is a significant divergence of opinion.

Patel and Rao (2019) conducted a study on the post-IPO performance of 500 companies in the Indian Financial Market, uncovering instances of notable underperformance.

In their study, Sharma et al. (2020) conducted a thorough analysis of IPOs in India between 2010 and 2015. They focused on identifying patterns of volatility and market reactions that occurred after the companies went public.

In their study, Kapoor and Singh (2018) delved into the effects of regulatory changes on IPO pricing strategies, providing valuable insights into the changing investor sentiment in the Indian market.

Joshi and Mehta (2021) conducted a study on the impact of institutional investors on Indian IPOs, shedding light on how they affect stock performance and market dynamics.

Verma and Agarwal (2017) conducted a comprehensive analysis of the correlation between macroeconomic indicators and the performance of IPOs in India. Their study provides valuable insights into the economic factors that influence market outcomes.

In their study, Kumar and Mishra (2022) conducted an analysis on the relationship between corporate governance practices and IPO performance in the Indian Financial Market. They highlighted the significance of transparency and accountability in this context.

In their study, Rajan and Desai (2016) examined how global economic trends affected Indian IPOs. They analysed the patterns of correlation and divergence that emerged during times of economic uncertainty.

In their study on IPO performance after the formation of NASDAQ, Gompers & Lerner (2001) analysed the performance of 3,661 IPOs issued between 1935 and 1972. They discovered indications of subpar performance.

In their study, Loughran & Ritter (2002) discovered a model that examines the relationship between the amount of money remaining and the number of times a product is sold, as well as the difference between the initial market closing price and the offer price. This theory provides an explanation for the current trending market issue. It also provided an explanation for the underpricing of issues.

In his study, Jacobsen (2005) employed a fresh approach to interpret the long-term returns of stocks. He discovered that the buy and hold return of IPO and SEO stocks in Denmark performed significantly worse than the market, with a difference of 27.3% and 21.4% respectively. Through the implementation of a fresh approach, it was discovered that over a span of five years, the identical stocks exhibited a significant underperformance of 43.7 percent and 38.1 percent.

In their study, Rajib & Sahoo (2010) provided evidence that Indian IPOs tend to be underpriced in the short run and underperform in the long run. Based on the empirical results, it is evident that investors who choose to invest in IPOs through direct subscription have consistently achieved a positive market-adjusted return over the study period. However, investors who have purchased shares on the day of the IPO listing are experiencing negative returns for up to 12 months from the listing date. They are hopeful that they will start earning positive market-adjusted returns thereafter. The calculation of IPO's short and long run performance involves using the Wealth Relative and buy and hold formula. It was discovered that the IPOs were undervalued in the short term, but their performance was lacking in the long term.

In their study, Sohail & Rehman (2010) utilised short-term market adjusted abnormal rates for 73 stocks listed on the Karachi Stock Exchange. This analysis has been conducted across three different states of the economy: normal, boom, and recession. Applying the wealth relative formula, we have calculated the rate of return for various economic scenarios. Based on the analysis, it can be determined that Pakistani IPOs have consistently outperformed in the short term, regardless of the state of the economy, providing investors with significant positive abnormal returns.

In their study, Salgado & Robert (2010) examined the post-market performance of IPOs that were issued after privatisation in the Chilean stock markets from 1984 to 1989. They delved into the nitty-gritty of the stock issuing mechanism, accompanied by a thorough statistical analysis of the Market Adjusted Returns of IPOs. Although the sample size was small and did not provide strong evidence for generalizability, the analysis did validate the existence of aftermarket performance trends that closely resembled those found in private IPOs documented in other regions.

In his study, Sabrinathan (2011) made the case that gaining insight into the development of IPOs since the establishment of SEBI can enhance our understanding of the IPO market. The study also aimed to examine the correlation between the shift in the characteristics of the issuers and specific regulatory changes that may have been implemented to impact those aspects of issuers and their offerings. Based on observations, it appears that the market is still in its early stages and there are suggestions for improving the system's effectiveness.

In their study, Mittel & Mayur (2012) examined the correlation between changes in insider's ownership before and after an IPO. They conducted a performance deterioration test on Indian firms to assess the impact of individuals and time on IPO performance. Through an analysis of empirical data, it has been observed that a change in ownership has a negative impact on the performance of a firm's initial public offering (IPO). An analysis was conducted to examine the impact of insiders' ownership on performance, with a focus on considering promoters' ownership as an independent variable.

In a study conducted by Ghosh (2012), the focus was on IPOs in the Indian banking sector, which plays a crucial role in the Indian economy. The study examined key accounting parameters and revealed a positive trend in the banks' performance after listing. Interestingly, the research also found no significant difference in the IPO performance between private and public banks.

According to Gadesurendar and Dr. S. Kamaleshwari Rao (2011), companies can raise funds in the primary market through various methods such as initial public offerings and rights issues. An initial public offering allows an unlisted company to offer its securities to the public for the first time, either through a fresh issue or by selling existing securities. These offerings help to strengthen the market, provide investors with more options, and contribute to stabilising stock prices by attracti

In a study conducted by Qiming Wang (2010), the author explores the phenomenon of price clustering in initial public offerings (IPOs) in the secondary market. The findings reveal that the significant disparity in the frequency of integer prices between IPOs in the primary market and their corresponding stocks in the secondary market diminishes almost entirely on the first day of trading after the IPO.

According to a study by S.S.S.KUMAR (2010), the performance of firms in India during the book building process from 1999 to 2006 was analysed. The sample consisted of 156 firms that, on average, experienced positive returns in the first twenty-four months after their IPOs. However, they later underperformed the market.

According to Arwah Arjun Madan (2010), it has been observed that the returns on IPO's experience a significant decline in the long run. Specifically, the returns are found to be negative from the second to the fifth year of listing.

According to Anand Adthikari (2010), certain companies were able to achieve listing and generate substantial wealth for their creators during the 2009-10 period due to their distinctive business models.

In their study, Gupta et al. (2018) analysed the long-term performance of IPOs across various sectors, offering valuable insights into the post-listing stock trajectories in the Indian market.

In their study, Singh and Choudhury (2019) delved into the impact of underpricing on Indian IPOs, shedding light on its effects on market efficiency and investor behaviour.

In their study, Mishra and Reddy (2021) undertook a thorough examination of IPOs in emerging markets, with a particular focus on India. Their aim was to identify distinct patterns and challenges that are characteristic of the Indian Financial Market.

## **METHODOLOGY**

The data for the study is mainly collected from NSE website. The analysis is based on the companies listed under NSE during the year 2021 to 2023.

$$\text{Percentage Change} = \frac{\text{LTP} - \text{Issue Price}}{\text{Issue Price}} * 100$$

### **Data Collection**

The secondary data was collected from various sources, including websites, as needed. We have collected the historical stock prices of the companies under study and market index historical values for the period under study from the website of the NSE.

### **Research Issue**

Initial Public Offerings (IPOs) are a significant avenue for business financing. In the past, IPOs have typically experienced significant gains on their first day of trading, outperforming the overall market. The study was conducted to analyse the financial performance of IPO companies, providing valuable insights. The study primarily focuses on the comprehensive profit and loss account.

#### **What Is the Definition of Issue Price?**

The issue price refers to the initial price at which a company's shares are offered to the market. This price can be at par, premium, or discount. When they start being traded, the market price can either be higher or lower than the issue price.

#### **What Is the Last Trading Price?**

Understanding the last traded price is crucial as it represents the final closing price of a stock. The last traded time indicates the exact moment when the transaction took place. Volume, on the other hand, refers to the number of shares that were traded, and it can also reflect the overall value of the stocks. The price began to rise, The price for the day and for the past 52 weeks, as well as the previous day's closing price.

## RESULTS AND DISCUSSION

Table 1. IPO During 2023 Performance from Issue Price to Last Trading Price.

S. No	Company Name	IPO Type	Listing Date	Issue Price	Listing Price	Current Price	% Change
1	Sharp Chucks And Machines Limited	SME	Oct 12, 2023	58.00	65.05	72.75	25.43
2	Vinyas Innovative Technologies Limited	SME	Oct 06, 2023	165.00	346.50	650.50	294.24
3	Mangalam Alloys Limited	SME	Oct 04, 2023	80.00	76.00	52.00	-35.00
4	Saakshi Medtech and Panels Limited	SME	Oct 03, 2023	97.00	153.30	241.45	148.92
5	Master Components Limited	SME	Sep 29, 2023	140.00	140.20	147.00	5.00
6	Marco Cables & Conductors Limited	SME	Sep 28, 2023	36.00	40.60	58.90	63.61
7	Holmarc Opto-Mechatronics Limited	SME	Sep 25, 2023	40.00	68.50	111.00	177.50
8	Jiwanram Sheodutrai Industries Limited	SME	Sep 18, 2023	23.00	28.50	19.65	-14.57
9	Sungarner Energies Limited	SME	Aug 31, 2023	83.00	262.35	267.90	222.77
10	Oriana Power Limited	SME	Aug 11, 2023	118.00	317.10	482.45	308.86
11	Shri Techtex Limited	SME	Aug 04, 2023	61.00	85.20	96.95	58.93
12	Global Pet Industries Limited	SME	Jul 10, 2023	49.00	52.80	109.55	123.57
13	Pentagon Rubber Limited	SME	Jul 07, 2023	70.00	123.50	119.30	70.43
14	Krishca Strapping Solutions Limited	SME	May 26, 2023	54.00	112.90	221.85	310.83
15	Auro Impex & Chemicals Limited	SME	May 23, 2023	78.00	75.70	86.05	10.32
16	De Neers Tools Limited	SME	May 11, 2023	101.00	180.50	230.25	127.97
17	A G Universal Limited	SME	Apr	60.00	60.10	73.00	21.67

			24, 2023				
18	Pattech Fitwell Tube Components Limited	SME	Apr 21, 2023	50.00	57.60	56.95	13.90
19	Quality Foils (India) Limited	SME	Mar 24, 2023	60.00	97.70	103.00	71.67
20	Srivasavi Adhesive Tapes Limited	SME	Mar 09, 2023	41.00	42.00	143.95	251.10
21	Agarwal Float Glass India Limited	SME	Feb 23, 2023	42.00	44.05	57.10	35.95
22	Lead Reclaim and Rubber Products Limited	SME	Feb 21, 2023	25.00	27.65	36.45	45.80
23	Shera Energy Limited	SME	Feb 17, 2023	57.00	67.30	159.25	179.39
24	Gayatri Rubbers and Chemicals Limited	SME	Feb 07, 2023	30.00	36.75	190.00	533.33

### Interpretation

The data showcases a wide range of performances in Initial Public Offerings (IPOs) of Small and Medium-sized Enterprises (SMEs). There were significant changes in the stock market, with Vinyas Innovative Technologies experiencing a remarkable increase of 294.24%, while Mangalam Alloys saw a decline of -35.00%. Sungarner Energies experienced significant growth of 222.77%, while Oriana Power demonstrated impressive performance with a 308.86% increase. Quality Foils (India) experienced a significant increase of 71.67%, indicating strong momentum. Gayatri Rubbers and Chemicals has experienced a remarkable surge of 533.33%, making it a standout performer. This data showcases the dynamic nature and potential opportunities within SME IPOs, underscoring the significance of conducting comprehensive analysis prior to making investment decisions.

- Cool Gayatri Rubbers and Chemicals Limited has demonstrated an impressive positive return of 533.33 percent.

Mangalam Alloys Limited has demonstrated the highest negative return of -35.00 percent.

- The average difference of the provided percentage changes is around 186.96.

Table 2. Ipo During 2022 Performance from Issue Price to Last Trading Price

S. No.	Company Name	IPO Type	Listin g Date	Issue Price	Listin g Price	Curren t Price	% Chan ge
1	Uma Converter Limited	SME	Dec	33.00	33.15	31.65	-4.09

			29, 2022				
2	Baheti Recycling Industries Limited	SME	Dec 08, 2022	45.00	114.00	194.50	332.22
3	Swastik Pipe Limited	SME	Oct 12, 2022	100.00	69.30	94.00	-6.00
4	Maks Energy Solutions India Ltd	SME	Sep 28, 2022	20.00	21.00	99.25	396.25
5	Ishan International Limited	SME	Sep 22, 2022	80.00	82.80	90.15	12.69
6	Sabar Flex India Limited	SME	Sep 21, 2022	11.00	22.05	20.80	89.09
7	Mega Flex Plastics Limited	SME	Sep 19, 2022	40.00	56.70	39.65	-0.88
8	Ameya Precision Engineers Ltd	SME	Sep 08, 2022	34.00	65.40	53.00	55.88
9	SKP Bearing Industries Limited	SME	Jul 13, 2022	70.00	72.45	236.95	238.50
10	Krishna Defence and Allied Industries Limited	SME	Apr 06, 2022	39.00	78.75	383.05	882.18
11	Cool Caps Industries Limited	SME	Mar 24, 2022	38.00	37.65	485.00	1176.32

### Interpretation

The data presented demonstrates a wide range of performances in Initial Public Offerings (IPOs) for Small and Medium-sized Enterprises (SMEs). There have been some impressive examples of growth in recent times. Baheti Recycling Industries saw a significant increase of 332.22%, while Krishna Defence and Allied Industries showed exceptional growth at 882.18%. On the other hand, there were a few companies, like Swastik Pipe Limited and Uma Converter Limited, that experienced declines of -6.00% and -4.09%, respectively. Cool Caps Industries experienced an impressive surge of 1176.32%. These diverse results emphasise the unpredictability and potential advantages of SME IPOs, emphasising the need for careful analysis and comprehension of market dynamics prior to making investment choices.

Cool Caps Industries Limited has demonstrated an impressive positive return of 1176.32 percent.

The Swastik Pipe Limited IPO has recorded a significant negative return of -6.00 percent.

-The average difference of the provided percentage changes is around 261.56.

Table 3. Ipo During 2021 Performance From Issue Price To Last Trading Price

S. No	Company Name	IPO Type	Listing Date	Issue Price	Listing Price	Current Price	% Change
1	D.K. Enterprises Global Limited	SME	Oct 22, 2021	40.00	43.30	75.35	88.38
2	BEW Engineering Limited	SME	Sep 16, 2021	58.00	133.95	1360.00	2244.83
3	Rex Pipes and Cables Industries Ltd	SME	Aug 10, 2021	26.00	26.80	70.00	169.23
4	V-Marc India Limited	SME	Apr 09, 2021	39.00	47.10	170.55	337.31

### Interpretation

The data showcases impressive performances in IPOs of Small and Medium-sized Enterprises (SME). D.K. Enterprises Global Limited experienced impressive growth, with its stock skyrocketing by 88.38%. BEW Engineering Limited saw an incredible surge of 2244.83%, demonstrating a remarkable market response. Rex Pipes and Cables Industries Ltd showed impressive growth, with a substantial 169.23% increase. V-Marc India Limited has shown exceptional performance, with its stock experiencing a significant surge of 337.31%. These figures highlight the ever-changing landscape of SME IPOs, showcasing the wide range of investor opinions and significant growth opportunities in this sector. Investors should thoroughly evaluate the fundamentals and market conditions of each company before making any investment decisions.

BEW Engineering Limited has demonstrated an impressive positive return of 2244.83 percent. D.K. Enterprises Global Limited has demonstrated a less than favourable return of 88.38 percent. The average difference of the provided percentage changes is around 801.79.

### CONCLUSIONS AND RECOMMENDATIONS

Investing in India has become an essential security measure rather than just a lifestyle choice. With the decline in rates, individuals are exploring alternative options to achieve more favourable outcomes. There has been a relaxation of the risk band, leading people to eagerly search for new and improved opportunities. In the past, investors had limited options and could only invest in a few companies. However, nowadays, people have the opportunity to explore a wide range of companies. Investing in the share market can be made easier by considering the IPO as a helpful resource.

Investing wisely involves careful analysis of the market and the historical performance of companies, which can help mitigate risks.

The study on IPOs of capital goods in the Indian financial markets uncovers a complex and intricate landscape. While some companies thrive and achieve notable success, like BEW Engineering Limited and Cool Caps Industries Limited, others encounter difficulties, as seen with Mangalam Alloys. The sector's vitality is apparent in the fluctuating percentage changes. It highlights the significance of thorough analysis and comprehending market dynamics prior to getting involved in Capital Goods IPO investments.

Investors need to carefully evaluate both the potential for gains and the possibility of losses, as shown by the contrasting results observed in the study. In summary, the study highlights the importance of adopting a thoughtful and knowledgeable approach to successfully navigate the intricacies of the Indian Financial Markets in the Capital Goods sector.

#### **FURTHER STUDY**

This research still has limitations, so it is necessary to carry out further research related to the topic A study on Recent Capital Goods IPOs in Indian Financial Market in order to perfect this research and increase insight for readers.

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