THE EFFECT OF 2008 STOCK MARKET CRASH ON UNDERPRICING OF BOOK-BUILT IPOS: A STUDY OF INDIAN CAPITAL MARKET

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Abstract

Historically, IPOs have been observed to be underpriced. There are cycles in both the volume and the average underpricing of IPOs which may be attributable to the prevailing economic conditions. A large number of IPOs are made when there is a stock market boom. In contrast there is generally a decline in the IPO activity when the stock market conditions become adverse. The stock market crash may cause a short term behavioural change amongst investors or a structural change in the market which may affect IPO underpricing. The present paper investigates the impact of Indian stock market crash in the year 2008 on the underpricing of book-built IPOs. A significant difference is found in the level of IPO underpricing in the post stock market crash period as compared to pre stock market crash period.

Keywords: Underpricing, IPO, 2008 stock market crash, economic crisis.

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