A STUDY ON LISTING PERFORMANCE OF SME IPOs OF GUJARAT CITY

A Thesis submitted to Gujarat Technological University

For the Award of

Doctor of Philosophy

in

Management

Submitted by

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Enrollment No : 199999903506

Under the Supervision of

Dr. KEDAR BHATT

GUJARAT TECHNOLOGICAL UNIVERSITY

AUGUST - 2026

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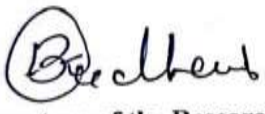

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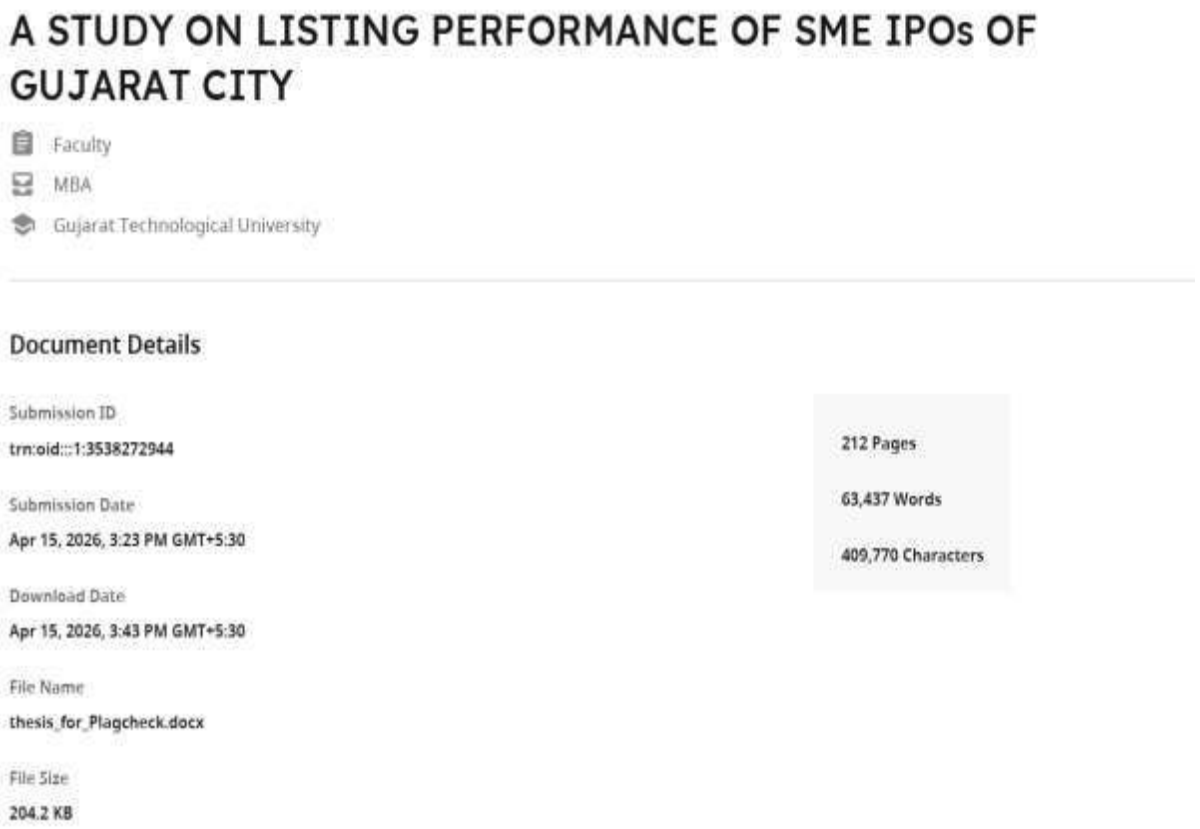
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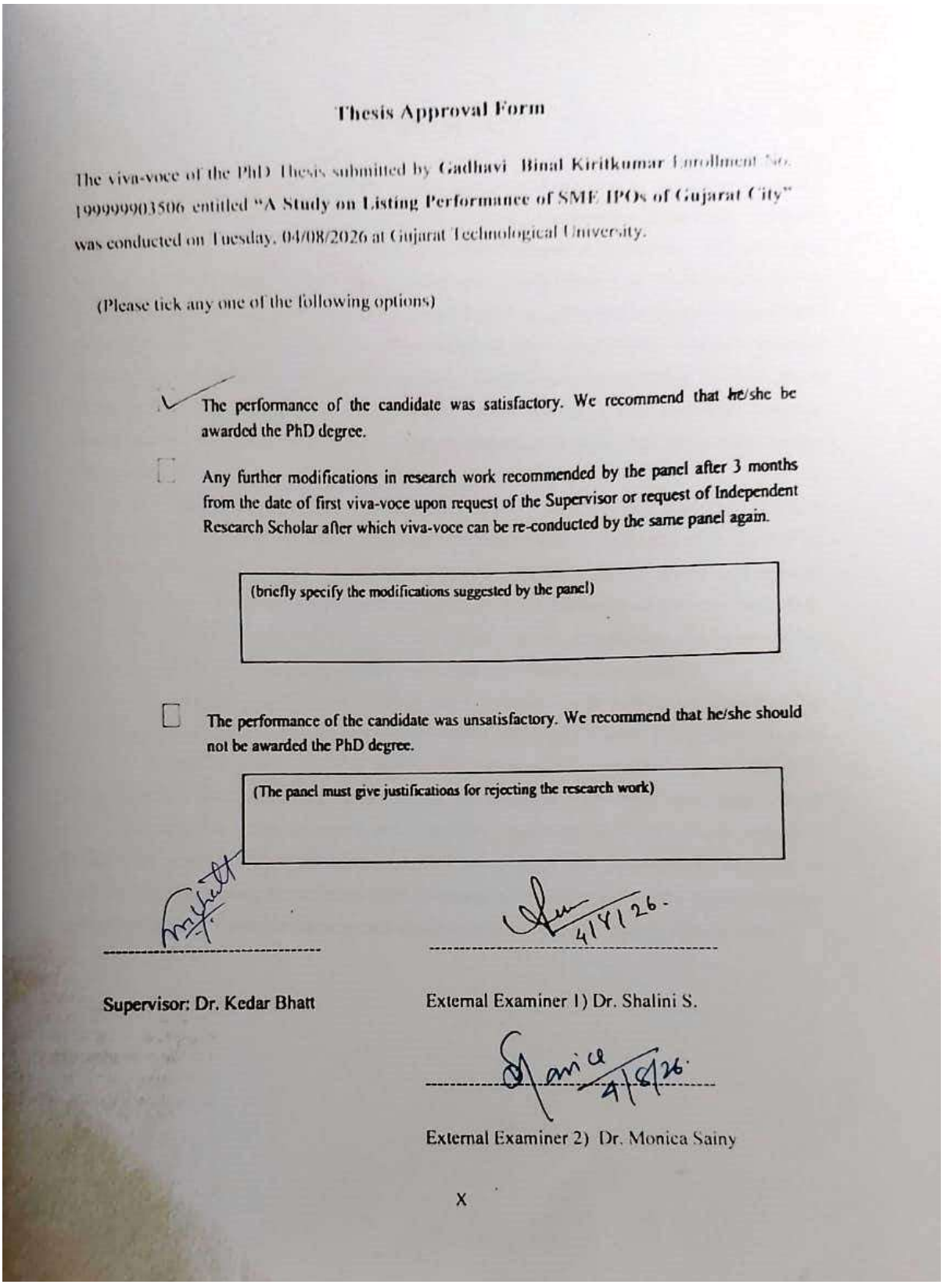

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ABSTRACT

Small and Medium Enterprises (SMEs) constitute a vital segment of the Indian economy, contributing significantly to gross domestic product, employment generation, industrial diversification, and regional development. Despite their economic importance, SMEs continue to face persistent financial constraints, particularly limited access to formal credit due to inadequate collateral, weak credit histories, high borrowing costs, and procedural complexities associated with institutional finance. These challenges often compel SMEs to rely on informal funding sources, restricting their growth potential and long-term sustainability. In this context, Initial Public Offerings (IPOs) have emerged as an alternative and structured financing mechanism for SMEs seeking long-term capital, enhanced visibility, and improved corporate governance.

Recognizing the unique needs of smaller enterprises, the Securities and Exchange Board of India (SEBI) introduced dedicated SME listing platforms-BSE SME and NSE Emerge to facilitate easier access to equity markets through simplified listing norms and reduced compliance requirements. Over the past decade, India has witnessed a substantial rise in SME IPO activity, with Gujarat emerging as one of the leading contributors due to its strong entrepreneurial culture, industrial clusters, and supportive business environment.

This study examines the dynamics of SME IPOs in Gujarat with a focus on understanding firm-specific and market-related factors influencing IPO performance. It analyzes pre- and post-listing financial performance, investor participation patterns, and the role of regulatory frameworks in facilitating SME market access. By evaluating how SME IPOs contribute to capital mobilization, diversification, and expansion, the study aims to provide empirical insights for investors, policymakers, and SME promoters. The findings are expected to contribute to the existing literature on SME financing while offering practical implications for strengthening capital market participation and fostering sustainable SME growth in India.

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LIST OF ABBREVIATION

1) IPO: Initial Public Offering
2) BHAR: Buy and Hold Abnormal Return
3) SRMAR: Short Run Market Adjusted Return
4) LRP: Long Run Performance
5) SME: Small and Medium Enterprises
6) NSE: National Stock Exchange
7) BSE: Bombay Stock Exchange
8) SEBI: Security Exchange Board of India
9) GDP: Gross Domestic Product
10) MSME: Medium and Small Sector enterprises.
11) FMCG: Fast Moving Consumer Goods.
12) CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises
13) TUFS : Technology Upgradation Fund Scheme
14) ODOP : One District One Product
15) NBFCs :Non-Banking Financial Companies
16) Fintech: Financial technology
17) CLCSS: Credit Linked Capital Subsidy Scheme
18) FPOs: Follow-on public offerings
19) GIDC: Gujarat Industrial Development Corporation.

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CHAPTER 1

INTRODUCTION

This chapter introduces the overall context and background of the study by highlighting the significance of Small and Medium Enterprises (SMEs) in the Indian economy and their contribution to employment generation, industrial growth, and innovation. It discusses the structural and financial challenges faced by SMEs, particularly the limited access to formal credit and dependence on informal funding sources. The chapter further explains how Initial Public Offerings (IPOs) have emerged as an alternative the importance of SME listings and sets the stage for the subsequent chapters of the research study.

Small and Medium Enterprises (SMEs) play a crucial role in shaping the Indian economy by contributing significantly to GDP, generating employment, and fostering innovation across various sectors. These enterprises are widely recognized as the backbone of industrial development and socio-economic progress, especially in a diverse and dynamic country like India. Despite their importance, SMEs often face major challenges in accessing formal financial systems, which impedes their growth, competitiveness, and long-term sustainability. (DasGupta & Pathak, 2024)

SMEs in India have depended on self-financing, loans from banks and financial institutions, or informal credit channels to meet their funding needs. However, these sources are often limited, inconsistent, or not suited for ambitious growth plans. In this context, Initial Public Offerings (IPOs) have emerged as an alternative route to access long-term capital. By entering the equity market, SMEs can not only raise funds for expansion and innovation but also enhance their visibility, credibility, and governance standards (Ding, Li, Yang & Xiao, 2023).

Understanding the specific financing needs of SMEs, the Securities and Exchange Board of India (SEBI) introduced dedicated SME platforms---BSE SME and NSE Emerge---in 2012. These platforms are designed to provide a more flexible, cost-effective, and simplified framework for SME listings,

thereby enabling broader participation in capital markets. Over the past decade, India has witnessed a substantial rise in SME IPOs, particularly from Gujarat---a state known for its strong entrepreneurial spirit, industrial development, and favorable investment climate.

Gujarat's growing prominence in SME listings calls for a focused examination of how these firms perform post-IPO, what factors influence their market success, and how investor behavior interacts with SME fundamentals (Feng & Zong, 2025). Retail and institutional investors have increasingly shown interest in SME IPOs, reflecting a shift in investment patterns toward emerging businesses with high growth potential. This study aims to explore the dynamics of SME IPOs in Gujarat by analyzing firm-specific and market-related variables, assessing pre- and post-listing performance, and offering practical insights for investors, policymakers, and researchers. Understanding these dynamics will not only fill an academic gap but also contribute to more effective policy interventions and informed investment strategies in the SME segment (Ding, Li, Yang & Xiao, 2023).

1.1 Role of SMEs in Indian Economy

Small and Medium Enterprises (SMEs) occupy a central and indispensable position in India's economic architecture, widely acknowledged as the backbone of national development. Their contribution extends across multiple dimensions of the economy, from boosting Gross Domestic Product (GDP) to generating large-scale employment, stimulating industrial production, fostering exports, and supporting balanced regional development. According to the Ministry of MSME, the SME sector contributes nearly 30% to India's GDP and provides employment to more than 110 million individuals, making it the second-largest source of employment after agriculture. This extensive footprint underscores the pivotal role that SMEs play not only in driving economic activity but also in shaping the country's socio-economic progress. These enterprises operate across a wide spectrum of industries---manufacturing, services, trade, retail, agro-based industries, creative sectors, and technology-driven businesses---making them foundational to India's industrial and entrepreneurial ecosystem (Ferri,

Fiorentino, Parmentola & Sapio, 2019).

One of the defining strengths of SMEs is their ability to promote inclusive and regionally balanced development. Large industrial units often cluster around urban or industrially developed regions, whereas SMEs have the unique capacity to function efficiently even in remote, semi-urban, and rural areas. This decentralization of economic activity helps reduce regional disparities, stimulates local entrepreneurship, and creates livelihood opportunities where formal employment options may be limited (Freixanet & Federo, 2022). SMEs therefore act as catalysts for bottom-up economic growth, empowering local communities and enabling socio-economic upliftment. Their flexibility, adaptability, and capacity for innovation---despite limited resources---allow them to respond quickly to changing market conditions, adopt niche business strategies, and cater to evolving consumer needs. This agility has been particularly evident in the post-liberalization era and later during the COVID-19 pandemic, where SMEs demonstrated resilience through product diversification, digital adoption, and innovative market engagement (Freixanet & Federo, 2022).

Moreover, SMEs form a critical part of the broader industrial supply chain. They function as suppliers, subcontractors, service providers, and collaborative partners to large corporate firms in sectors such as automotive, textiles, pharmaceuticals, information technology, and fast-moving consumer goods (FMCG). Their role in providing intermediate goods, customized solutions, and ancillary services strengthens India's manufacturing competitiveness and reduces dependency on imports. The growth of SMEs, therefore, has a multiplier effect, enhancing productivity and efficiency across the entire industrial ecosystem. As India aspires to become a global manufacturing hub through initiatives such as Make in India, the development and expansion of SMEs becomes even more crucial (Fu & Wang, 2019).

Despite their undeniable importance, SMEs continue to face a number of structural, financial, and operational challenges that hinder their growth and long-term sustainability. Access to formal finance remains the most persistent bottleneck, with many SMEs relying on informal credit due to stringent collateral requirements, limited credit histories, and risk-averse lending practices. This financial constraint restricts their ability to expand operations,

adopt modern technology, invest in research and development, and compete in global markets. Technological obsolescence is another major barrier, as many small firms lack the skills, funds, or awareness needed to deploy advanced manufacturing systems, digital tools, or automation solutions. Additionally, SMEs grapple with regulatory burdens, compliance complexities, infrastructural limitations, and competition from both domestic large firms and international players(Fu & Wang, 2019).

Recognizing these challenges, policymakers have increasingly focused on improving SMEs' access to capital markets as a means of accelerating their growth trajectory. The introduction of SME-specific Initial Public Offering (IPO) platforms by stock exchanges such as BSE and NSE represents a significant step in this direction (Das, Lashkari & Sengupta, 2006). These platforms provide SMEs with an alternative and more structured avenue to raise equity capital, enhance their financial visibility, improve governance practices, and transition into the formal economy. Listing on SME exchanges not only strengthens an enterprise's credibility but also facilitates long-term expansion,technological modernization, and integration into global supply chains. By promoting financial inclusion and reducing dependence on traditional banking channels, SME IPO frameworks contribute to building a more resilient and competitive entrepreneurial landscape (Das, Lashkari & Sengupta, 2006).

Thus, the development and empowerment of SMEs is central to India's overarching economic vision. Strengthening this sector through improved financing mechanisms, policy support, digital transformation, and regulatory reforms is essential for sustaining growth, generating employment, fostering innovation, and ensuring equitable prosperity across regions. As India continues its journey toward becoming a \$5 trillion economy, the SME sector will remain a cornerstone of national progress, driving both economic dynamism and socio-economic inclusion (Das, Lashkari & Sengupta, 2006).

1.1.2 Contribution to GDP and employment generation

Small and Medium Enterprises (SMEs) form the cornerstone of India's economic foundation and are central to the nation's ambition of achieving inclusive, broad-based, and sustainable development. They constitute one of the

most dynamic sectors in the industrial and service ecosystem, contributing significantly to gross domestic product (GDP), employment creation, export earnings, and balanced regional development. According to the Annual Report of the Ministry of Micro, Small and Medium Enterprises (2022--23), the SME sector contributes nearly 30% to India's GDP and accounts for about 48% of the country's total exports. This dual role---strengthening domestic production and enhancing India's global trade competitiveness---demonstrates the strategic importance of SMEs in national economic planning and policy formation (Goldberg & Nellis, 2007).

In terms of employment generation, SMEs are second only to agriculture in providing livelihoods to India's vast and diverse population. With over 110 million individuals currently employed across various SME segments, this sector plays a critical role in addressing unemployment and underemployment, especially in regions where large industries have a limited presence. The labour-intensive nature of SMEs allows them to absorb significant numbers of low-skilled, semi-skilled, and newly skilled workers. This makes them a crucial instrument for poverty alleviation, income distribution, and rural socio-economic upliftment. Many marginalized communities, women entrepreneurs, and first-generation business owners find opportunities for self-employment and enterprise creation within the SME framework, further highlighting its inclusivity (Caridi, Perego & Tumino, 2013).

One of the defining characteristics of the SME sector in India is its wide geographic dispersion. Unlike large enterprises that predominantly operate in metropolitan or industrially developed regions, SMEs are spread across small towns, semi-urban clusters, and even remote rural areas. This helps bridge regional imbalances by encouraging localized economic activity, utilizing indigenous resources, and fostering entrepreneurship at the grassroots level(Goldberg & Nellis, 2007). Regions such as Gujarat, Maharashtra, Tamil Nadu, and Karnataka have emerged as thriving SME hubs due to supportive government initiatives, robust industrial ecosystems, strong supply chain networks, and a longstanding culture of business innovation. These hubs create ripple effects in the form of auxiliary industries, service providers, logistics networks, and skill development centres (Caridi, Perego & Tumino, 2013).

Beyond their economic impact, SMEs are also vital agents of innovation and entrepreneurial dynamism. Many start-ups that begin as small ventures eventually grow into scalable, high-impact enterprises when provided with adequate financial support, infrastructural facilities, and policy incentives. The lean organizational structure, adaptability, and operational flexibility of SMEs enable them to respond quickly to market shifts, technological disruptions, and consumer demand trends. Their ability to innovate in product design, service delivery, and process efficiency gives them a competitive advantage in niche markets both domestically and internationally. Additionally, the growth of digital platforms, e-commerce, and technological adoption has further boosted SME innovation, enabling them to tap into new business models and global customer bases(Goldberg & Nellis, 2007).

Despite their remarkable contributions, SMEs continue to face systemic challenges that hinder their scalability and global competitiveness. Limited access to formal credit remains one of the most persistent barriers, as many SMEs operate with insufficient collateral, inadequate financial documentation, or low creditworthiness in the eyes of traditional lenders (Caridi, Perego & Tumino, 2013). Technology adoption also poses a significant challenge, with many enterprises still relying on outdated machinery or manual processes that reduce efficiency and restrict productivity. Furthermore, SMEs often struggle with workforce skill gaps, bureaucratic compliance requirements, and intense competition from larger, more resource-rich firms.

Recognizing these challenges, the Government of India and regulatory institutions have implemented several measures aimed at improving the financial and operational environment for SMEs. A notable step in this direction is the establishment of SME-specific capital market platforms such as BSE SME and NSE Emerge. These platforms are designed to provide SMEs with easier access to equity financing, enabling them to raise growth capital, enhance corporate governance standards, improve transparency, and integrate more fully into the formal economy. Listing on these exchanges not only increases investor confidence in SMEs but also strengthens their long-term sustainability through better financial reporting and accountability structures (Caridi, Perego & Tumino, 2013).

Moreover, initiatives such as financial literacy programs, digital skilling missions, credit guarantee schemes, cluster development programmes, and incentives for technology adoption have been introduced to boost SME competitiveness (Chatterjee, Bhattacharjee & Chakraborty, 2024). These efforts complement the broader national objectives of fostering entrepreneurship, improving ease of doing business, strengthening supply chains, and promoting self-reliance through domestic manufacturing.

Ultimately, SMEs are much more than contributors to GDP or employment---they serve as engines of equitable growth, social empowerment, and economic resilience. Strengthening this sector is imperative for realizing India's developmental aspirations, reducing regional disparities, and positioning the nation as a global economic powerhouse (Chatterjee, Bhattacharjee & Chakraborty, 2024). By enabling SMEs to access capital, adopt modern technology, and operate within a supportive regulatory environment, India can unlock enormous potential within this sector and accelerate its journey toward a more self-reliant and sustainable economy.

1.1.3 Promotion of innovation and entrepreneurship.

Small and Medium Enterprises (SMEs) serve as powerful drivers of innovation, technological progress, and entrepreneurial activity in India. Their contribution extends far beyond economic output or employment numbers; SMEs fundamentally shape the nation's innovation landscape through their agility, adaptability, and intrinsic willingness to experiment with new ideas. Unlike large corporations characterized by formal hierarchies, layered decision-making systems, and extensive compliance structures, SMEs operate with lean organizational frameworks (Chen, 2025). This structural simplicity enables them to respond swiftly to emerging opportunities, shifting consumer needs, and competitive pressures. The capacity for rapid decision-making, combined with an entrepreneurial mindset, cultivates an environment where creativity and experimentation naturally flourish. In today's rapidly evolving economic landscape---defined by digital transformation, globalization, and shifting market dynamics---this flexibility becomes a crucial differentiator (Chen & Wang, 2016).

India's entrepreneurial ecosystem has undergone a profound transformation over the past decade, and SMEs have played an instrumental role in shaping this evolution. Many of the country's most influential and high-growth start-ups began as small ventures, driven by a strong understanding of local problems, innovative thinking, and efficient use of limited resources. These enterprises often tap into niche or underserved markets, creating solutions that are not only commercially viable but also socially relevant. This bottom-up approach to innovation ensures that the solutions emerging from SMEs are highly contextualized and tailored to the unique challenges of specific regions or industries. It also fosters inclusive development by enabling entrepreneurship to flourish at all socio-economic levels(Cheng, Xu & Li, 2024).

One of the defining strengths of the SME sector in India is its geographic diversity. Innovation is not restricted to major metropolitan cities such as Bengaluru, Mumbai, or Delhi. Tier II and Tier III towns have emerged as vibrant entrepreneurial centres, offering fertile ground for new ideas and grassroots innovation (Cheng, Xu & Li, 2024). This localized entrepreneurship helps unlock latent talent and creativity across India's diverse population, enabling individuals from smaller towns and rural backgrounds to participate actively in the innovation economy. States like Gujarat exemplify this trend. With a longstanding culture of entrepreneurship, Gujarat has become home to a wide range of SME-driven innovations across sectors such as textiles, chemicals, engineering goods, food processing, IT services, and handicrafts. The region's strong industrial networks, supportive state policies, and ease-of-doing-business environment further reinforce its position as a leading hub for SME innovation (Chen & Wang, 2016).

Government initiatives have also played a pivotal role in fostering innovation within the SME segment. Flagship programs such as Startup India, Standup India, Make in India, MSME Sampark, and Digital India have significantly enhanced the entrepreneurial environment by providing improved access to finance, incubation facilities, technological infrastructure, and simplified regulatory procedures (Chen & Sui, 2025). Specific schemes targeting MSMEs, such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), the Technology Upgradation Fund Scheme (TUFS), and cluster

development initiatives, have provided essential support for innovation-led growth. These reforms have not only lowered entry barriers for entrepreneurs but have also created incentives for SMEs to invest in new technologies, adopt digital tools, and explore R&D-driven solutions (Cheng, Xu & Li, 2024).

In many critical sectors, SMEs are spearheading the development of indigenous technologies adapted to local needs. Whether in affordable healthcare devices, low-cost engineering solutions, eco-friendly manufacturing practices, food processing innovations, or digital service delivery, SMEs consistently demonstrate their ability to innovate within resource constraints. Their proximity to customers helps them identify gaps and inefficiencies more effectively than larger corporations, enabling them to develop cost-effective and scalable solutions. Moreover, SMEs often operate in specialized clusters---such as Surat's textile cluster, Rajkot's engineering cluster, or Morbi's ceramic cluster---where knowledge sharing, collaboration, and competition encourage continuous improvements and innovation(Brooks, Sahaym, Datta & Srivastava, 2023).

However, despite their immense innovation potential, SMEs often face substantial obstacles that limit their capacity to scale and sustain innovative activities. One of the most significant challenges is restricted access to capital. Formal financial institutions frequently hesitate to extend credit due to perceived risks, lack of collateral, or insufficient financial documentation. Limited access to technology and inadequate R&D infrastructure further constrains innovation. Many SMEs lack specialized human resources with expertise in design, engineering, digital technologies, or research methodologies. These constraints make it difficult for SMEs to compete with large enterprises, which often have dedicated R&D teams and access to sophisticated equipment and funding (Chandrashekar & M.H., 2019).

Access to equity markets through SME-specific IPO platforms such as BSE SME and NSE Emerge has emerged as a transformative avenue for overcoming these financial constraints. Going public provides SMEs with long-term growth capital that can be deployed for technology upgrades, expansion activities, working capital requirements, and R&D investments (Chandrashekar & M.H., 2019). Additionally, the process of public listing enhances the enterprise\'s credibility, transparency, and governance standards. Stronger governance, in

turn, increases investor confidence and positions SMEs to attract further domestic and foreign investment. The discipline imposed through regulatory compliance---regular financial disclosures, corporate governance norms, and enhanced accountability---helps SMEs mature operationally and strategically, improving their competitiveness and innovation readiness. Beyond financial and governance improvements, listing on SME exchanges also enhances brand visibility and market reputation. This improved visibility can open up new business partnerships, customer acquisitions, and technological collaborations, strengthening the company's ecosystem. For many SMEs, an IPO is not merely a means of raising capital; it serves as a platform for long-term capacity building and innovation enhancement(Brooks, Sahaym, Datta & Srivastava, 2023).

SMEs thus occupy a central position in India's journey toward becoming an innovation-driven economy. Their ability to identify emerging market trends, respond swiftly to local needs, and develop indigenous, cost-effective solutions gives them a unique advantage. They fuel a culture of risk-taking, experimentation, and problem-solving that is essential for sustained economic progress(Chandrashekar & M.H., 2019). Supporting their growth through targeted policy interventions, enhanced financial access, capacity-building initiatives, and market expansion opportunities is imperative. Encouraging and empowering SMEs will not only strengthen India's innovation ecosystem but also contribute to employment generation, regional development, and the nation's overall economic resilience. In a global landscape increasingly defined by knowledge, speed, and innovation, SMEs are poised to play a transformative role in shaping India's future.

1.1.4 Sectoral diversity and regional dispersion.

The Small and Medium Enterprises (SMEs) sector in India is distinguished by its remarkable sectoral diversity and extensive regional dispersion, both of which play a critical role in shaping the country's economic landscape. This diversity is not merely a structural characteristic but a strategic strength that enables the SME sector to contribute meaningfully to industrial growth, employment generation, innovation, and regional inclusiveness. Operating across an expansive array of industries, SMEs serve as pillars of economic resilience and engines of localized development. Their presence stretches from

long-established traditional sectors, such as textiles, handlooms, handicrafts, agro-processing, and leather, to contemporary growth sectors including information technology, biotechnology, pharmaceuticals, electronics, renewable energy, and specialised engineering services (Gaikwad & Dörrenbächer, 2022). This wide industrial footprint ensures that India's manufacturing and service ecosystems remain broad-based, reducing the risk associated with overreliance on a concentrated set of large industries.

One of the most defining aspects of India's SME landscape is its deep integration with both rural and urban economies. In metropolitan and industrialized urban regions, SMEs drive the growth of robust sectoral clusters. Engineering units in Pune and Rajkot, chemicals and pharmaceuticals in Vapi and Ankleshwar, textiles in Ahmedabad and Tiruppur, and electronics manufacturing in Bengaluru illustrate the critical role of SMEs in strengthening India's urban industrial backbone. These enterprises often function as suppliers, service providers, and ancillary units to major corporations, ensuring that large-scale industrial activity is supported by a dependable and efficient network of smaller players.

In contrast, SMEs in rural and semi-urban areas anchor the economic sustainability of India\'s hinterlands. Industries such as food processing, cottage industries, dairy products, handlooms, handicrafts, and rural engineering units provide livelihood opportunities to millions while preserving centuries-old artisanal skills and cultural heritage(Gupta, Singh & Yadav, 2022). This dual presence of SMEs across rural and urban geographies leads to more balanced regional development, reduces migration pressures on cities, and supports inclusive economic growth. Their ability to operate effectively in resource-constrained environments further enhances their value in remote regions where large industries might not find operational viability.

Gujarat stands out as a leading example of successful SME-led regional development. Renowned for its entrepreneurial culture, the state has cultivated a dynamic ecosystem of sector-specific industrial clusters. Surat has emerged as a global hub for diamond polishing and textiles, Morbi has gained international recognition for ceramic tiles, Rajkot is known for its engineering and diesel engine manufacturing units, while Vadodara and Vapi are prominent centres for

pharmaceuticals and chemicals (Arora & Singh, 2023). These clusters are not accidental; they have evolved over decades through the availability of skilled labour, natural resources, supportive state policies, and strong business networks. The result is a highly efficient and competitive SME ecosystem where enterprises benefit from localized supply chains, shared infrastructure, and continuous knowledge exchange.

Industry-specific clusters such as those in Gujarat serve as powerful engines of regional innovation. They encourage firms to collaborate, compete, share expertise, and adopt new technologies at a faster pace. The presence of backward and forward linkages within clusters facilitates seamless integration between raw material suppliers, manufacturers, ancillary industries, logistics providers, and export agents. This interconnectedness enhances productivity, reduces operational costs, and allows SMEs to scale with greater efficiency. Clusters also attract supportive institutions like training centres, technical institutes, research labs, and financial service providers, further strengthening the innovation potential of the region (Chi & Gooda, 2024).

The regional spread of SMEs also contributes to reducing urban congestion by promoting economic development in smaller towns and semi-urban locations. Instead of economic activities being concentrated in a few major metropolitan areas, SMEs distribute industrialization across districts, aligning effectively with national initiatives such as One District One Product (ODOP), Make in India, and Aatmanirbhar Bharat Abhiyan. These programs encourage specialization by building district-level identities around traditional and modern products, promoting local production, and improving market access through branding, design interventions, and export facilitation (Corsi & Prencipe, 2017).

However, despite their widespread presence and sectoral vibrancy, SMEs continue to face regional disparities in terms of infrastructure quality, technological readiness, access to affordable finance, and institutional support. While states such as Gujarat, Maharashtra, Tamil Nadu, and Karnataka enjoy strong SME ecosystems supported by proactive industrial policies and robust infrastructure, other states lag behind due to inadequate physical and financial resources. This uneven development limits the full potential of SMEs at a national scale. Addressing these gaps requires targeted policy interventions,

including improved connectivity, stronger financial incentives, enhanced credit access, and broader participation in formal equity markets through platforms like BSE SME and NSE Emerge (Gabrielsson, Sasi & Darling, 2004).

Access to capital markets is particularly important for bridging regional disparities. SME IPOs provide crucial long-term funding, improve governance and transparency, and enhance visibility among investors, customers, and institutional partners. Regions like Gujarat that have actively participated in SME IPO listings provide a road map for how localized enterprises can scale sustainably and integrate into national and global value chains.

In essence, the sectoral diversity and regional dispersion of SMEs make them an indispensable component of India's economic architecture. By ensuring geographic balance, promoting sector-specific innovation, and generating employment across varied socio-economic contexts, SMEs contribute both to economic resilience and social equity. Understanding their sectoral and regional dynamics---particularly in contexts such as SME IPO performance in Gujarat---offers valuable insights into how localized enterprises evolve, scale, and transition into formal financial ecosystems.

1.1.5 Foundation of industrial and service sector growth.

Small and Medium Enterprises (SMEs) form the cornerstone of industrial and service sector development in India. Their inherent flexibility, adaptability to local resources, and capacity to meet niche market demands make them pivotal in driving both manufacturing and service-oriented growth. As the Indian economy progresses toward diversified development, SMEs continue to serve as incubators of innovation and enablers of industrial depth.

In the industrial sector, SMEs contribute extensively to the production of consumer goods, intermediate components, and export-oriented products. Whether it is the textile mills in Gujarat, auto components in Tamil Nadu, or machine tools in Maharashtra, SMEs serve as vital suppliers in the value chain of larger manufacturing units. This symbiotic relationship promotes the development of ancillary industries, boosts employment, and enhances overall productivity within industrial clusters (Dong, Xu & McIver, 2021). The government's Make in India initiative recognizes SMEs as key players in

promoting manufacturing-led growth and reducing dependency on imports. In the context of Gujarat, SMEs have laid the industrial foundation for cities like Rajkot, Jamnagar, and Morbi, which are now nationally and globally recognized hubs for engineering goods, brass components, and ceramics, respectively. These industrial hubs not only contribute to regional GDP but also create a multiplier effect by supporting logistics, warehousing, banking, and other service sectors. This integrated development showcases how SMEs play a catalytic role in the overall industrial ecosystem.

The service sector---comprising IT services, retail, logistics, tourism, healthcare, education, and consultancy---is increasingly being shaped by SME participation. Digital transformation, fintech solutions, and e-commerce platforms have opened new frontiers for service-oriented SMEs. Particularly post-pandemic, SMEs in the service sector have shown resilience by adopting digital tools, facilitating remote work, and catering to evolving consumer demands. These ventures are crucial for fostering entrepreneurship and expanding access to services in tier-2 and tier-3 cities. SMEs also contribute significantly to backward and forward linkages within both industrial and service sectors. For instance, a manufacturing SME in Gujarat not only produces goods but may also offer after-sales service, maintenance, or IT support---thereby creating a value-added chain that supports job creation across skill levels. This inter-sectoral connectivity strengthens regional supply chains and ensures smoother integration with national and international markets (Esmaeili Givi, Saberi, Talafidaryani, Abdolhamid, Nikandish & Fattahi, 2022).

The ability of SMEs to absorb labor, innovate quickly, and customize solutions allows them to fill gaps left by larger enterprises. Their decentralized nature supports inclusive industrialization by promoting growth beyond metropolitan areas. They also act as training grounds for skilled labor, entrepreneurs, and future large-scale enterprises(Gupta, Singh & Yadav, 2023). SMEs act as the bedrock upon which both industrial and service sectors in India continue to evolve. Their contribution extends beyond production and services---they stimulate innovation, build infrastructure, enhance trade linkages, and foster regional economic resilience. Evaluating their performance, especially in IPO scenarios like those in Gujarat, is essential to understanding their expanding role

in national development.

1.2. Financing Challenges Faced by SMEs

Despite their critical role in driving economic development, employment generation, and regional industrialization, Small and Medium Enterprises (SMEs) in India continue to encounter persistent challenges in accessing formal sources of finance. Although the government and financial regulators have undertaken several initiatives to enhance financial inclusion for the sector, the structural and operational limitations faced by SMEs often prevent them from securing the capital required for their growth and long-term sustainability. One of the primary obstacles is the lack of adequate collateral, credit history, and standardized financial documentation---key requirements for traditional bank loans. Most SMEs operate as family-run or owner-driven businesses with informal management practices, inconsistent bookkeeping, and limited financial planning. These factors collectively contribute to their classification as high-risk borrowers by banks and Non-Banking Financial Companies (NBFCs), resulting in restrictive lending policies(Haldar, Datta & Shah, 2020).

The perception of SMEs as risk-intensive entities is further amplified by the irregularity of their cash flows, dependence on local markets, and vulnerability to economic fluctuations. For many small enterprises, working capital cycles are unpredictable due to delayed payments from buyers, supply chain disruptions, and fluctuating input costs (Cao, Huang, Kristanto & Scott, 2024). These uncertainties reduce their creditworthiness in the eyes of formal lenders, who typically rely on stable revenue patterns and audited financial statements to assess the repayment capacity of borrowers. As a result, SMEs often face higher interest rates, stringent loan covenants, and shorter repayment tenures, making institutional credit less accessible and more burdensome.

Due to these barriers, a large segment of SMEs is compelled to rely on self-financing or informal funding channels such as personal savings, family contributions, local moneylenders, or trade credit from suppliers. While these sources offer flexibility, they are insufficient for scaling operations, adopting technology, or expanding into new markets. Informal finance also exposes

SMEs to exploitative interest rates and lacks the long-term stability required for strategic business growth. Consequently, many enterprises remain trapped in a cycle of underinvestment and limited capacity utilization, which undermines their ability to compete with larger firms or international players.

Another major challenge lies in the procedural complexities associated with obtaining bank loans. Traditional lenders often require extensive documentation, meticulous compliance with regulatory norms, and multiple rounds of verification. For small business owners who typically manage daily operations themselves, these procedures are time-consuming and cumbersome. Limited awareness about banking norms, financial products, and credit rating mechanisms adds to the difficulty, discouraging many SMEs from seeking institutional credit altogether. The issue is particularly acute in rural and semi-urban areas where financial literacy remains low and banking infrastructure is less developed(Chang & Noguera, 2016).

Furthermore, venture capital, angel investment, and private equity funding---although rapidly growing in India---are largely inaccessible to most SMEs. Investors tend to prioritize enterprises with scalable business models, high growth potential, and strong corporate governance practices. However, many SMEs operate in traditional sectors with modest growth prospects, making them less attractive to such investors. Additionally, the absence of professional management teams, detailed business plans, and robust financial projections often limits their ability to secure equity-based funding (Agnihotri & Bhattacharya, 2025).

Against this backdrop, Initial Public Offerings (IPOs) have emerged as an alternative avenue for SMEs to mobilize long-term capital. Recognizing the unique needs and constraints of small enterprises, Indian stock exchanges have created dedicated SME platforms---BSE SME and NSE Emerge---designed to offer a streamlined listing process with relaxed eligibility norms compared to the main boards. These platforms aim to empower SMEs by providing them access to equity markets, enabling them to raise funds for expansion, technology upgradation, working capital needs, and debt restructuring (Albada, Abusham, Ong & al Qatiti, 2025). A successful IPO can also enhance a company's credibility, visibility, and corporate governance standards, making it more

attractive to customers, suppliers, and institutional investors.

However, navigating the IPO process itself presents its own set of challenges. Listing on an exchange requires SMEs to meet regulatory requirements, maintain transparent financial records, undergo audits, appoint merchant bankers, and adhere to disclosure norms. For many enterprises unfamiliar with the capital market ecosystem, these obligations can be complex and financially demanding. The costs involved in preparing for an IPO---such as compliance expenses, advisory fees, and post-listing obligations---may act as deterrents. Moreover, SME owners often lack the financial literacy and strategic guidance necessary to evaluate whether public listing aligns with their long-term business goals(al Balushi, Locke & Boulanouar, 2019).

In addition, cultural factors also influence SME decision-making. Many entrepreneurs prefer to retain full ownership and control rather than diluting equity by going public. Concerns about disclosure requirements, increased scrutiny, and investor expectations further discourage potential issuers from considering capital markets as a financing option. Despite these apprehensions, SMEs that successfully navigate the IPO route often benefit from improved governance structures, greater operational discipline, and enhanced access to future funding. Overall, while IPO platforms such as BSE SME and NSE Emerge have created promising opportunities for formal capital access, addressing the foundational challenges---such as financial literacy, documentation readiness, and regulatory awareness---remains crucial. Strengthening advisory support systems, simplifying compliance frameworks, and expanding capacity-building programs can significantly ease the transition of SMEs into the formal financial ecosystem. Sustainable access to finance is not only essential for individual enterprises but also vital for harnessing the full economic potential of SMEs in India\'s long-term growth trajectory(Ahmed, Fathy & Samak, 2024).

1.2.1. Limited access to formal credit

Small and Medium Enterprises (SMEs) in India play a foundational role in shaping the nation's economic landscape. They contribute substantially to Gross Domestic Product (GDP), employment generation, industrial diversification, and

grassroots innovation. With millions of enterprises operating across manufacturing, services, trade, and agro-linked sectors, the SME segment serves as a catalyst for inclusive development, regional industrialization, and entrepreneurial growth (Albada, Low & Toh, 2023). Despite their immense economic significance, one of the most persistent and deeply entrenched challenges faced by these enterprises is their limited access to formal credit. This constraint has far-reaching implications for their operational sustainability, scalability, and long-term competitiveness.

The credit barrier originates primarily from the structural gaps between the requirements of formal financial institutions and the financial behavior and documentation practices of SMEs. Unlike large corporations that maintain detailed audited financial statements, comprehensive credit histories, collateral assets, and standardized governance mechanisms, many SMEs lack these formal credentials. Their financial records may be informal or incomplete, and many businesses are family-run with traditional management systems rather than modern, documented processes. As a result, banks and financial institutions classify them as high-risk borrowers. This perception translates into higher interest rates, stringent loan conditions, reduced credit limits, or, in many cases, complete loan rejections. For enterprises already struggling to manage cash flows and operational unpredictability, these constraints deny them the timely and adequate working capital or long-term investment capital necessary for survival and expansion (Bhullar, Grover & Tiwari, 2024).

The structural design of India's credit appraisal system is inherently skewed against small enterprises. Banks generally rely on collateral-based lending models, standardized risk-assessment tools, and compliance-heavy procedures that do not align with the realities of most SMEs, especially those in rural or semi-urban locations (Bilro & Cunha, 2021). Thousands of SMEs operate partially or fully in the informal sector, without proper business registration or tax records. This makes it extremely difficult to assess their creditworthiness using conventional indicators such as credit scores, audited financial statements, or formal cash-flow projections. Consequently, such enterprises are either excluded from formal credit markets or subjected to complex, bureaucratic loan application processes that deter them from approaching banks in the first place.

The cumbersome paperwork, long verification cycles, and delays in loan disbursement further exacerbate the credit access problem. Many SME owners are first-generation entrepreneurs with limited exposure to financial systems and inadequate financial literacy. The formal financial environment, marked by extensive documentation and technical terminology, can appear intimidating to these business owners (Bobelyn, Claryse & Wright, 2021). Even government-sponsored schemes designed to enhance credit flow---such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)---face implementation challenges. While such schemes are intended to reduce collateral requirements and encourage banks to lend to SMEs, issues related to limited awareness, inconsistent application procedures, and varying interpretations of eligibility criteria restrict their overall impact.

Another critical dimension of the credit challenge is the concentration of bank lending in urban centers and towards larger corporate borrowers. Historically, institutional credit in India has displayed a bias in favor of established firms with stable revenues and long-standing banking relationships. Large enterprises enjoy easier access to both working capital and term loans due to their reputed financial history and the perceived lower risk associated with lending to them. As a result, SMEs, particularly those in remote or underserved regions, find themselves marginalized within the formal credit system (Bialek-Jaworska & Gabryelczyk, 2016). This urban-centric and large-enterprise-oriented lending approach further widens the financial inclusion gap within the SME sector.

Due to these systemic constraints, a considerable number of SMEs rely heavily on self-financing or informal sources of credit. Common alternatives include personal savings, contributions from family and friends, trade credit from suppliers, and loans from local moneylenders. While these sources provide quick access to funds, they also come with significant limitations. Informal borrowing often carries exorbitant interest rates, lacks regulatory oversight, and provides only short-term liquidity rather than sustainable long-term financial support. This forces SMEs into a cycle of financial vulnerability, where they are unable to invest in infrastructure upgrades, technological modernization, skill development, or product diversification. Over time, this lack of strategic investment severely restricts their ability to compete in both domestic and

international markets (Berezinets, Garanina & Ilina, 2016).

In recent years, financial technology (fintech) platforms, alternative credit assessment models, and government initiatives have attempted to address the credit gap. Digital lending platforms, for instance, use cash-flow data, GST records, and alternative digital footprints to evaluate creditworthiness, enabling faster and more flexible credit options. While these innovations offer new possibilities, their reach remains limited to SMEs with digital capabilities, adequate record-keeping, or familiarity with online platforms. A significant proportion of small businesses still lack access to digital infrastructure, limiting the overall effectiveness of these solutions (Boulanouar, Locke & Holmes, 2020).

To diversify funding avenues, dedicated SME platforms such as BSE SME and NSE Emerge have been established to provide SMEs with the opportunity to raise long-term equity capital through Initial Public Offerings (IPOs). These platforms aim to reduce listing barriers by offering relaxed eligibility norms, streamlined processes, and dedicated regulatory frameworks. Raising capital through an IPO can enhance an SME's visibility, strengthen its governance mechanisms, and facilitate access to growth capital without increasing debt burdens. However, the IPO route itself is resource-intensive and compliance-heavy, requiring audited financial statements, valuation assessments, merchant banking support, and adherence to disclosure norms(Chakraborty & Mahakud, 2023). For many SMEs, especially those lacking sophisticated financial systems or advisory support, the cost and complexity of going public make IPOs a challenging option.

In conclusion, while India's SMEs hold immense potential to drive economic transformation, their growth continues to be constrained by the chronic issue of limited access to formal finance. Addressing this requires a multi-faceted approach involving structural reforms, simplified credit assessment systems, enhanced financial literacy, and targeted policy interventions (Chowdary, Jayakumar & Muthukumar, 2016). Strengthening alternative financing mechanisms and offering greater preparatory support for capital market participation can further ease the financial constraints faced by SMEs. Ultimately, bridging the credit gap is essential for unlocking the full potential of

the SME sector and enabling inclusive and sustainable economic development across the country.

1.2.2. Dependency on informal sources

Despite the growing institutional framework supporting Small and Medium Enterprises (SMEs) in India, a significant number of these enterprises continue to rely heavily on informal sources of finance. This dependency stems largely from structural barriers, procedural complexities, and mistrust or inaccessibility of formal financial systems, particularly among micro and small units. Informal financing sources---such as moneylenders, family, friends, suppliers, and local financial agents---often become the default means of funding due to their flexible terms and immediate availability, despite the long-term risks they carry (Chatterjee & Bhattacharjee, 2021).

Informal credit providers generally do not demand extensive documentation, collateral, or detailed credit appraisals. This is particularly advantageous for SMEs that are in the early stages of establishment, lack formal accounting systems, or operate in semi-urban or rural markets where formal banking infrastructure is limited. Quick access to cash, negotiable repayment terms, and minimal paperwork make informal financing attractive in urgent or unforeseen situations. However, this convenience comes at a high cost. Informal lenders often charge exorbitant interest rates---far above market norms---leading to excessive financial burden and repayment stress. These sources rarely offer structured repayment schedules or legal protection, increasing the vulnerability of SMEs in case of disputes or financial instability (Afrifa & Tauringana, 2015).

Another concerning aspect of dependence on informal finance is the lack of scalability. Informal lenders usually cater to small amounts and short-term needs, making it difficult for businesses to finance large investments, technology upgrades, or capacity expansion. As a result, SMEs often remain trapped in a low-growth cycle, unable to transition from survival to competitive growth. In regions like Gujarat, where entrepreneurship is thriving and SME activity is robust, informal funding still plays a significant role---especially among family-owned or community-based enterprises. Social networks and trust-based lending traditions remain deeply embedded in business culture, often overshadowing

formal credit channels despite the increasing presence of financial institutions (Ali, Qiang & Ashraf, 2018).

While government schemes such as MUDRA and the Credit Linked Capital Subsidy Scheme (CLCSS) aim to reduce dependence on informal sources, lack of awareness, procedural delays, and eligibility constraints dilute their effectiveness. Fintech players are also emerging as alternative credit facilitators, leveraging digital data to assess risk and disburse microloans. However, they too face challenges in rural outreach and building trust among traditionally cautious SME operators (Ali, Qiang & Ashraf, 2018). To enable SMEs to move beyond informal dependency, there is a need for integrated policy reforms that promote financial inclusion, simplify loan processing, enhance awareness, and build credit histories through innovative means. Bridging this financing gap will not only improve the sustainability of SMEs but also enhance their readiness for equity financing through Initial Public Offerings (IPOs), especially in economically dynamic states like Gujarat.

1.2.3. Lack of credit history and collateral

One of the most persistent barriers faced by Small and Medium Enterprises (SMEs) in accessing formal financial support is the lack of credit history and sufficient collateral. This dual challenge significantly limits their eligibility for loans and other credit facilities offered by traditional banking institutions and even some Non-Banking Financial Companies (NBFCs). Most SMEs, especially those in the micro and small segments, operate informally or semi-formally with rudimentary bookkeeping practices. As a result, they often fail to maintain structured financial records, audited balance sheets, or regular tax filings---key components used by financial institutions to assess creditworthiness. In the absence of a documented credit history, lenders perceive these enterprises as high-risk borrowers, which leads to either denial of credit or the imposition of unfavourable lending terms (Arora & Singh, 2020b).

Collateral is another critical hurdle. Financial institutions usually demand tangible assets like land, buildings, or machinery as security against loans. However, a large number of SMEs, particularly those operating on leased premises or in rented workshops, do not possess significant fixed assets to

pledge. Even if movable assets are available, their valuation and acceptance as collateral remain a complex issue due to regulatory and procedural rigidity. This disproportionately affects first-generation entrepreneurs and those in service sectors, who may rely more on human capital than physical infrastructure. Moreover, due to the lack of credit scores and formal borrowing history, SMEs are often subject to higher interest rates, shorter repayment tenures, and smaller loan sizes---even when loans are sanctioned. This restricts their ability to make long-term strategic investments, adopt new technologies, or scale operations effectively. Consequently, these businesses either stagnate or revert to informal financing channels, perpetuating the cycle of limited growth and financial exclusion (Arora & Singh, 2020a).

Government schemes such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) were launched to address the collateral barrier by offering credit guarantees to lenders. While conceptually effective, the implementation of such schemes has been uneven, and many SMEs are either unaware of them or discouraged by complex application procedures and delays in approvals. In recent years, digital lending platforms and fintech solutions have attempted to bridge this credit gap by evaluating alternative data---such as transaction history, utility payments, and GST filings---for credit assessment. While this has broadened access somewhat, the reach remains limited to digitally literate and urban SMEs, leaving a large section of small enterprises in tier-II and tier-III cities, including many in Gujarat, underserved (Arora & Singh, 2020c).

In the context of SME IPOs, the lack of formal credit history also affects the perception of investors. Companies without credible borrowing records or audited performance metrics may struggle to build investor confidence, affecting subscription levels and post-listing performance. Therefore, addressing these foundational issues is vital not only for improving loan accessibility but also for preparing SMEs for successful participation in public equity markets.

1.2.4. High cost and complexity of loan procedures

The process of securing formal credit for Small and Medium Enterprises (SMEs) in India is often fraught with significant costs and procedural

complexities, which act as substantial deterrents to institutional borrowing. While numerous financial products and government schemes are theoretically available to support SME financing, the actual experience of accessing these funds remains tedious, time-consuming, and costly for many entrepreneurs. One of the primary barriers is the extensive documentation required during the loan application process. Banks and financial institutions demand a wide array of documents, including audited financial statements, income tax returns, detailed business plans, project reports, credit reports, ownership proofs, and compliance records. Many SMEs---especially the smaller ones or those in early stages---do not maintain such detailed records, either due to lack of resources or absence of formal accounting practices. Preparing or procuring these documents often requires the assistance of accountants, consultants, or legal advisors, adding to the cost burden (Bresciani, Giacosa, Broccardo & Culasso, 2016).

The loan approval process involves multiple stages of scrutiny, site inspections, background verification, and risk assessments. These layers not only prolong the approval cycle but also introduce subjective biases, where bankers may rely more on personal judgment than standardized assessment tools. In rural and semi-urban areas, where branch-level autonomy is limited, delays can be more pronounced due to dependence on zonal or head offices for final sanctioning (Balakrishnan, 2015). Another major issue is the high cost of credit. Interest rates for SME loans are generally higher than those for large corporations, reflecting perceived risks. Additionally, banks may charge various processing fees, legal and valuation charges, insurance premiums for collateral, prepayment penalties, and service taxes---making the total cost of borrowing considerably high. For small-ticket loans, these charges represent a disproportionately large share of the total financing amount, further reducing the utility of the borrowed funds.

Collateral requirements, when applicable, also increase procedural complexity. Enterprises may need to obtain land or asset valuations from empaneled professionals and navigate legal procedures to create a mortgage or lien, which involves both time and money. For first-time borrowers unfamiliar with banking procedures, this maze of compliance becomes discouraging (Balakrishnan, 2015). While digital banking and online loan application portals have been

introduced to streamline processes, adoption remains low among SMEs, especially in non-metro regions, due to low digital literacy and lack of handholding support.

The complexity and cost of formal credit access often drive SMEs toward informal lenders or non-institutional sources, despite the risks associated with such arrangements. These inefficiencies in the formal credit system not only restrict business growth but also hamper the ability of SMEs to professionalize and become eligible for public equity financing, such as Initial Public Offerings (IPOs). In the context of Gujarat's SMEs---many of which are family-owned or traditionally run---simplifying credit processes and reducing borrowing costs are essential to enhancing their financial health and readiness for capital market participation.

1.3. IPOs as a Capital-Raising Tool

Initial Public Offerings (IPOs) have emerged as a powerful capital-raising tool for enterprises seeking long-term growth, visibility, and financial sustainability. Traditionally dominated by large corporations, the IPO route has gradually become accessible to Small and Medium Enterprises (SMEs), thanks to regulatory reforms and the creation of dedicated platforms by the Securities and Exchange Board of India (SEBI), such as the BSE SME and NSE Emerge.

By going public, SMEs can mobilize equity capital from a wider investor base, thereby reducing their dependency on debt financing and informal lending channels. The infusion of capital through IPOs can be strategically utilized for business expansion, modernization of infrastructure, working capital requirements, and strengthening brand presence. Moreover, a listed status enhances the credibility of an enterprise in the eyes of customers, suppliers, investors, and financial institutions. The IPO process also encourages SMEs to adopt robust corporate governance standards, financial transparency, and accountability---making them more resilient and investment-worthy. For investors, SME IPOs offer opportunities to invest in high-growth potential firms at early stages, although they come with higher risks (Bornemann, Alwert & Will, 2021).

1.3.1. IPOs as a means for long-term funding

Initial Public Offerings (IPOs) serve as a strategic gateway for companies---especially Small and Medium Enterprises (SMEs)---to access long-term funding essential for business growth, diversification, and competitive positioning. For SMEs, which often struggle to obtain adequate finance through traditional banking channels due to lack of collateral, credit history, or high perceived risk, IPOs offer an attractive alternative to raise equity capital from the public markets.

Unlike debt financing, which imposes periodic repayment obligations and interest costs, equity financing through IPOs allows firms to obtain funds without the immediate pressure of repayment. This capital can be used for a wide range of long-term objectives, such as technological upgradation, setting up new facilities, entering new markets, acquiring other businesses, or enhancing working capital. The flexibility and durability of equity capital make it particularly suitable for SMEs planning sustainable expansion and innovation-driven projects (Brochado & Troilo, 2021).

One of the key advantages of IPOs is the ability to raise sizable capital in one go, which might not be possible through private placements or retained earnings. Furthermore, the listed status of a company boosts its market visibility, corporate credibility, and access to institutional investors. It also facilitates future fund-raising efforts via follow-on public offerings (FPOs) or rights issues, thus establishing a stable and scalable financial platform (Brochado & Troilo, 2021).

From a regulatory standpoint, the establishment of SME-focused platforms like BSE SME and NSE Emerge by SEBI has lowered the entry barriers for smaller firms to go public. These platforms provide simplified listing procedures, relaxed regulatory norms, and cost-effective compliance mechanisms, making them highly accessible for SMEs. The minimum post-issue paid-up capital requirement and reduced underwriting norms encourage SMEs to explore IPOs without the intense regulatory burden faced by large-cap firms (Ghalke, Kumar & Rao, 2022).

IPOs help in unlocking the value of early investments by founders and private

equity investors, offering them an exit route or liquidity. The process of going public also leads to improved corporate governance, financial disclosure, and internal systems---factors that enhance investor confidence and market credibility. IPOs are not without risks. Market volatility, investor sentiment, under-subscription, and high listing costs can pose challenges. Yet, for SMEs with solid fundamentals and growth potential, IPOs represent a viable long-term funding mechanism that can support their journey from local ventures to nationally recognized businesses. In regions like Gujarat, where industrial dynamism and entrepreneurial culture are pronounced, SME IPOs are emerging as a preferred tool for long-term funding, contributing to regional economic progress and broader capital market participation (Deng, 2018).

1.3.2. Enhancing visibility and credibility

Listing through an Initial Public Offering (IPO) not only provides capital to Small and Medium Enterprises (SMEs) but also significantly enhances their visibility and credibility in the marketplace. For many SMEs, limited market recognition is a barrier to scaling operations, attracting high-value clients, or building strategic partnerships. An IPO, by transitioning the firm from a privately held to a publicly listed entity, provides a level of transparency and governance that fosters investor and stakeholder trust.

When an SME goes public, it is required to disclose its financial statements, business strategy, risk factors, and corporate structure to regulators and the investing public. This level of transparency builds confidence among customers, vendors, and investors. It also signals that the company adheres to rigorous financial and operational standards, which strengthens its corporate image. For firms operating in competitive markets, such improved perception can be a decisive advantage in winning contracts, forming alliances, and negotiating with suppliers and financiers (Gleason, Madura & Wiggenhorn, 2006). Credibility is further reinforced through the involvement of market intermediaries like underwriters, auditors, and merchant bankers. These institutions conduct due diligence and vouch for the company's financial health and business prospects. Their association serves as a third-party validation of the SME's viability, making it easier to attract institutional investors and retain shareholder trust over time.

Being listed enhances media exposure and brand recognition. SMEs that were once known only in regional circles gain nationwide attention, helping them build stronger customer relationships and reach new geographies. The increase in public awareness often translates into higher brand loyalty, improved talent acquisition, and even better valuation during mergers or acquisitions. Listed companies are often perceived as more stable and resilient, which can benefit them in securing better credit terms from banks and negotiating more favorable terms with business partners. The presence of a public market valuation also helps in attracting private equity or venture capital investments for future growth phases (Deng & Liu, 2024).

For SMEs in Gujarat, where competition is intense and markets are dynamic, enhanced visibility and credibility gained through an IPO can significantly accelerate business momentum. It strengthens their position not just financially but also reputationally---both key elements in driving long-term success. Thus, beyond capital, the intangible benefits of credibility, public trust, and increased recognition make IPOs a strategic tool for SMEs aiming to scale their operations and establish themselves as industry leaders.

1.3.3. Enabling diversification and expansion

One of the most strategic advantages of an Initial Public Offering (IPO) for Small and Medium Enterprises (SMEs) is its capacity to enable diversification and expansion. Access to equity capital through public listing provides SMEs with the financial muscle needed to diversify product lines, enter new markets, modernize infrastructure, adopt new technologies, and scale operations. Unlike debt financing, which adds to the company's liabilities and may restrict cash flow due to repayment obligations, capital raised through IPOs is non-repayable and can be directed towards long-term growth initiatives (Hamza, Barka, Verdie & al Sayah, 2024).

For many SMEs, growth is constrained by limited internal accruals and the challenges of accessing sufficient external finance. With the infusion of funds from an IPO, companies can invest in research and development, upgrade machinery, expand their distribution networks, or establish a presence in international markets. This not only increases their market share but also reduces

dependence on a single revenue stream or market segment---thus promoting sustainability and risk mitigation.

Diversification, whether in terms of product offerings or geographic reach, is a powerful strategy for SMEs in Gujarat that operate in highly competitive sectors like textiles, engineering, chemicals, and pharmaceuticals. IPO-generated capital enables these firms to adapt to changing consumer demands, respond to global market trends, and compete with larger enterprises on a more equal footing. For example, an SME in the pharmaceutical sector may use IPO proceeds to introduce a new product range or obtain regulatory approvals to export to international markets, thereby increasing revenue potential and brand recognition (Hånell, Rovira Nordman & Mattsson, 2021).

Expansion after IPO listing is not merely operational but also strategic. SMEs can use part of the raised capital to make acquisitions, form joint ventures, or invest in backward and forward integrations---strengthening their value chain. This leads to improved cost efficiency, enhanced bargaining power, and a more robust market presence. The confidence of shareholders and public scrutiny also acts as a catalyst for disciplined financial planning and efficient use of funds. Unlike private funding where usage may remain opaque, listed companies are held accountable for how they allocate IPO proceeds. This leads to prudent capital allocation, focused investment in core competencies, and better governance practices---all essential for sustained expansion (Harjayanti, Suherman & Ahmad, 2024).

In the context of Gujarat, where many SMEs are family-run or regionally bound, IPOs open doors to professionalization and wider stakeholder engagement. Diversification and expansion post-IPO not only contribute to the growth of the individual enterprise but also to the broader regional and national economy through increased employment, innovation, and tax revenues. Thus, IPOs play a transformative role in enabling SMEs to move beyond survival and stability toward strategic diversification, sustainable scalability, and long-term competitiveness in both domestic and international arenas (Agrawal, 2024).

1.3.4. Attracting a broader investor base

One of the key advantages of Initial Public Offerings (IPOs) for Small and

Medium Enterprises (SMEs) is the opportunity to attract a wider and more diverse investor base. Unlike traditional financing sources, which are often limited to banks, private equity firms, or informal lenders, IPOs enable SMEs to tap into public markets and reach both retail and institutional investors. This expanded access to capital not only provides financial resources but also builds market credibility and enhances corporate governance (Atnashev & Vashakmadze, 2017).

For SMEs, especially those from industrially active regions like Gujarat, attracting a broad investor base helps in democratizing ownership and spreading business risk. Through SME-dedicated platforms such as BSE SME and NSE Emerge, SEBI has created an accessible route for smaller enterprises to raise capital while maintaining investor confidence. These platforms are designed to reduce entry barriers, ensuring that even early-stage and family-run enterprises can approach the capital markets with greater ease and compliance support (Bajaj, Kashiramka & Singh, 2021).

The presence of a diversified investor pool---comprising individual investors, mutual funds, venture capitalists, high-net-worth individuals, and even foreign institutional investors---brings multiple benefits. First, it improves the liquidity of the company's shares, allowing more active trading and price discovery. Second, diversified shareholders contribute to transparency and accountability, which can drive professionalization and long-term planning within the enterprise. Attracting a broad investor base enhances the visibility and reputation of the SME in the business ecosystem. As more stakeholders develop an interest in the company's performance, it may lead to strategic partnerships, collaborative ventures, or follow-on funding opportunities. Investors often bring not just capital but also valuable networks, market insights, and operational expertise that can aid the SME's growth journey.

In the case of Gujarat, a state known for its entrepreneurial spirit and robust SME ecosystem, many companies have successfully leveraged IPOs to not only raise capital but also gain the attention of national and international investors. This helps these businesses expand their market footprint beyond local or regional boundaries, allowing them to compete at a larger scale. Another notable advantage of having a wide investor base is the potential to stabilize share prices

post-listing. With more participants engaging in the stock, the risks of price manipulation or excessive volatility are reduced. This builds long-term investor trust and enhances the SME\'s image as a stable, investible entity. In conclusion, IPOs offer SMEs a strategic pathway to broaden their investor base, ensuring sustainable capital flow, improved governance, and enhanced market credibility. This shift from closed, private financing to open, public investment represents a key milestone in the growth and maturity of any SME aiming for long-term success in today's competitive landscape (Harney & Nolan, 2022).

1.4. SEBI's Role and SME Listing Platforms

The Securities and Exchange Board of India (SEBI), as the capital market regulator, has played a crucial role in fostering an inclusive financial ecosystem for small and medium enterprises (SMEs). Recognizing the capital constraints faced by these enterprises and the challenges they face in accessing traditional financing, SEBI introduced dedicated SME listing platforms---BSE SME and NSE Emerge---in 2012. These platforms were designed to provide a simplified, cost-effective, and regulation-light alternative for SMEs to raise equity capital from the public (Cuozzo, Dumay, Palmaccio & Lombardi, 2017).

SEBI's proactive approach included relaxing norms related to minimum post-issue capital, simplified disclosure requirements, and reduced compliance burdens, thereby encouraging more SMEs to go public. The regulator also mandated that merchant bankers play a key role in underwriting and facilitating SME listings, ensuring investor protection while promoting transparency. These SME platforms have significantly improved access to public funding for growing enterprises, particularly in states like Gujarat, which have a dense concentration of high-performing SMEs. Through these measures, SEBI has not only enhanced financial inclusion but also helped improve corporate governance, professionalization, and investor confidence in the SME sector (Cannavale, Zohoorian Nadali & Esempio, 2020).

1.4.1. Introduction of BSE SME and NSE Emerge

In an effort to bridge the financing gap for small and medium enterprises (SMEs), the Securities and Exchange Board of India (SEBI) initiated the

development of dedicated SME listing platforms---BSE SME and NSE Emerge---in 2012. These platforms were specifically designed to address the unique needs and constraints of SMEs, offering them easier access to equity financing and broader capital market exposure.

BSE SME, launched by the Bombay Stock Exchange, was the first of its kind in India. It offers a platform for SMEs to raise funds through an initial public offering (IPO) with comparatively lower compliance and disclosure norms. The listing requirements for BSE SME include a minimum post-issue paid-up capital of ₹ 1 crore and a track record of profitability or net worth. It also emphasizes merchant banker due diligence and underwriting to safeguard investor interests. Since its inception, BSE SME has seen a steady increase in listings from various states, particularly Gujarat, which is known for its dynamic entrepreneurial ecosystem (Chaklader & Padmapriya, 2021.

NSE Emerge, introduced by the National Stock Exchange, aims to provide a transparent and efficient mechanism for SMEs to access long-term capital. NSE Emerge facilitates easier listing procedures and has become a preferred platform for high-growth and innovation-driven enterprises. It allows both profit-making and investment-worthy non-profitable firms to list, thereby widening the scope of eligible enterprises. Companies listed on NSE Emerge benefit from enhanced visibility, credibility, and investor trust. Both platforms require SMEs to appoint a merchant banker and meet basic governance and financial documentation standards. Unlike the main board listings, these platforms do not necessitate extensive track records or high paid-up capital. The reduced entry barriers and simplified regulatory norms have made these platforms a practical solution for SMEs looking to expand operations, enhance their market image, and access diversified investor pools (Culkin & Simmons, 2018a).

One of the most significant advantages of BSE SME and NSE Emerge is their role in formalizing and institutionalizing the SME sector, which traditionally relied heavily on informal funding. Through IPOs on these platforms, SMEs not only raise capital but also adopt better corporate governance practices and become more accountable, improving their long-term sustainability and growth prospects. The BSE SME and NSE Emerge platforms represent a major regulatory and infrastructural innovation aimed at empowering India's SME

sector. They enable capital mobilization, promote entrepreneurial ventures, and align SMEs with the mainstream financial system. Their success, particularly in industrially progressive states like Gujarat, underscores their relevance in India's evolving economic framework (Caputo, Kargina & Pellegrini, 2023).

1.4.2. Simplified norms and compliance requirements

One of the critical barriers preventing small and medium enterprises (SMEs) from accessing capital markets has historically been the complexity and cost of regulatory compliance. Recognizing this challenge, SEBI introduced simplified norms and compliance requirements specifically tailored to the capacity of SMEs through the BSE SME and NSE Emerge platforms. These measures are designed to strike a balance between investor protection and ease of doing business for emerging companies (Colombelli, 2015).

Unlike the stringent requirements of mainboard listings, SME platforms allow firms with lower paid-up capital---ranging from ₹ 1 crore to ₹ 25 crores---to raise equity capital without undergoing the rigorous regulatory procedures typically associated with larger firms. This significantly lowers the entry threshold and encourages more SMEs to consider listing as a viable fundraising option. The compliance framework for SME listings is intentionally relaxed in several key areas. For instance, SMEs are permitted to file abridged prospectuses, which are concise and less technical than the traditional detailed documents required for mainboard IPOs. Additionally, the frequency of mandatory disclosures such as quarterly financial results is lower, allowing SMEs to concentrate more on operations and less on extensive reporting.

SMEs listed on these platforms are not required to adhere to the same level of corporate governance obligations as their mainboard counterparts. For example, the requirements related to board composition, audit committees, and independent directors are more flexible. Furthermore, SMEs can migrate to the mainboard of BSE or NSE after fulfilling certain post-listing performance criteria and achieving a higher market capitalization, providing them with a roadmap for long-term growth. The appointment of a merchant banker and the underwriting of the issue are mandatory, ensuring investor confidence despite the relaxed norms. These intermediaries play a crucial role in due diligence and

post-issue compliance, bridging the gap between regulatory standards and the limited managerial resources of SMEs (Desouza & Awazu, 2006).

Another critical relaxation involves the listing fees and cost of compliance. On SME platforms, the listing costs are significantly lower, and companies can even benefit from state subsidies or financial support schemes available for first-time listings. This makes the entire process not only more accessible but also financially feasible for young and growth-oriented companies. In essence, the simplified norms and compliance structure of BSE SME and NSE Emerge platforms make public listing a practical option for SMEs, which were previously deterred by high regulatory overheads. These reforms promote financial inclusivity, encourage wider participation, and contribute to the formalization of India's vibrant SME sector. By reducing bureaucratic hurdles while retaining core investor safeguards, SEBI has fostered an ecosystem where SMEs can thrive through market-based capital raising.

1.4.3. Tailored eligibility for smaller companies

The establishment of the BSE SME and NSE Emerge platforms by the Securities and Exchange Board of India (SEBI) was rooted in the objective of making public market access feasible for smaller enterprises that previously found traditional stock exchanges inaccessible due to stringent eligibility norms. These platforms incorporate tailored eligibility criteria that acknowledge the unique nature, scale, and capabilities of small and medium enterprises (SMEs), ensuring that even early-growth-stage firms can participate in the equity markets (Abor & Adjasi, 2007).

One of the most significant relaxations is in the minimum post-issue paid-up capital requirement. While companies listing on the mainboard exchanges are required to have a post-issue paid-up capital of at least ₹ 10 crores, the SME platforms allow companies with a minimum post-issue paid-up capital of just ₹ 1 crore to get listed. This makes the entry threshold significantly more attainable for smaller businesses. The profitability track record requirement for SMEs is less rigid. While mainboard listings demand a consistent track record of profits and net worth, SME platforms offer flexibility. For instance, a company can list without a three-year profitability track record, provided that the issue is

fully underwritten and 15% of the issue is subscribed by the merchant banker's own account. This provision accommodates startups and innovative ventures that may not have been profitable yet but hold strong future potential.

Another key aspect of the tailored eligibility framework is sectoral flexibility. SMEs from various sectors, including manufacturing, services, and technology, can list without being constrained by sector-specific requirements. This inclusive approach enables a diverse pool of SMEs to benefit from capital markets, regardless of their industry background. The condition of having a minimum number of shareholders before listing is less burdensome on SME platforms. SEBI mandates a minimum of 50 investors in an SME IPO issue, in contrast to the 1,000 investors required for a mainboard listing. This not only reduces the marketing burden for SME promoters but also speeds up the fundraising process (Arena, Catuogno, Paoloni & Pastore, 2024).

The promoter's shareholding requirement is also structured to facilitate easier listings. Promoters are required to hold a minimum of 20% of the post-issue capital, which must be locked in for a period of three years. This ensures that promoters remain invested in the business while providing assurance to investors. These tailored eligibility norms have opened the doors of capital markets to a vast segment of Indian businesses that were earlier confined to private funding or debt-heavy models. By accommodating the operational realities and resource limitations of smaller companies, the SME platforms encourage greater formalization, transparency, and long-term growth (Clark & Covin, 2021).

1.4.4. Regulatory intent to boost SME access to capital

The introduction of the BSE SME and NSE Emerge platforms reflects a clear regulatory intent by the Securities and Exchange Board of India (SEBI) to democratize capital markets and make them more inclusive for Small and Medium Enterprises (SMEs). Traditionally, SMEs have been constrained by limited access to institutional finance and equity capital due to their size, risk profile, and lack of visibility (Chidiac El Hajj, Chidiac & Awdeh, 2024). Recognizing these barriers, SEBI has proactively designed policies that specifically aim to bridge the financing gap and promote the participation of

SMEs in India's growth story. One of the foremost objectives of SEBI's regulatory framework for SME IPOs is to provide a structured and credible route for SMEs to raise long-term funds from public investors. SEBI acknowledged that conventional listing requirements on the main board of exchanges were too rigid and expensive for SMEs. As a result, SME-focused platforms were developed with relaxed norms, reduced compliance burdens, and lower listing costs to enable smaller enterprises to raise equity capital efficiently.

In alignment with the broader national agenda of enhancing financial inclusion, employment generation, and regional economic development, SEBI's approach to SME financing is both developmental and protective. The regulator's policies not only aim to facilitate access to capital but also ensure transparency, investor protection, and good governance among listed SMEs. Mandatory disclosures, post-listing compliance obligations, and merchant banker accountability serve to balance ease of access with systemic safeguards (Gora & Yadav, 2024).

SEBI has also provided clarity regarding exit routes and migration policies for SMEs. Companies listed on BSE SME or NSE Emerge can migrate to the main board of the exchange after meeting specific criteria related to paid-up capital, net worth, and number of shareholders. This upward mobility encourages SMEs to adopt better governance and financial discipline, knowing that growth and expansion will be rewarded with access to larger pools of capital (Chung, Ding & Ma, 2019).

The regulatory focus is also aligned with Make in India, Digital India, and Startup India initiatives, reinforcing the government's agenda to foster innovation, entrepreneurship, and inclusive economic growth. By supporting SMEs in accessing capital markets, SEBI indirectly contributes to improving productivity, job creation, and regional industrial development. SEBI has encouraged the participation of institutional investors, market makers, and merchant bankers in SME IPOs, ensuring adequate liquidity and professional guidance for SMEs entering public markets. This ecosystem-driven approach is key to the long-term success of SME platforms. In essence, the regulatory intent behind these reforms is not just to create an alternate listingavenue, but to fundamentally transform how SMEs finance their operations and growth strategies---making capital markets a viable and sustainable funding option for

India's most dynamic business segment (Ahmad-Zaluki & Badru, 2021).

1.5. Benefits of SME-Specific Platforms

SME-specific platforms such as BSE SME and NSE Emerge offer numerous benefits tailored to the unique needs and limitations of small and medium enterprises. These platforms were established with the primary aim of simplifying access to capital markets and reducing the structural and financial barriers traditionally faced by SMEs in raising equity funding. One of the major advantages is the reduced cost of listing. Compared to the main board, the listing expenses on SME platforms are significantly lower, making them financially viable for smaller companies. The compliance requirements are also relatively relaxed, enabling SMEs to focus more on operations while still maintaining necessary transparency and governance standards (Camors, Chavez & Romi, 2020).

These platforms provide a formal and credible framework for SMEs to raise long-term capital, which helps in business expansion, modernization, and innovation. Listing also enhances a company\'s visibility and market reputation, improving trust among stakeholders, customers, and potential partners. SME platforms encourage wider participation from retail and institutional investors, thus improving market liquidity and investor confidence. These platforms also serve as a stepping-stone for high-growth SMEs, allowing them to migrate to the main board once they meet certain eligibility criteria (Benraad, Ozkan, Turetken & Vanderfeesten, 2022).

1.5.1. Cost-effective listing process

The SME-specific platforms such as BSE SME and NSE Emerge are designed to cater to the financial and structural constraints of small and medium enterprises. One of the most attractive features of these platforms is the cost-effective nature of the listing process. Compared to the main board listings, SME IPOs require significantly lower fees related to underwriting, regulatory compliance, marketing, and professional services. This makes it feasible for small businesses with limited budgets to access public capital without the financial burden typically associated with traditional IPOs (Bakar & Noordin,

2021).

The minimum post-issue paid-up capital requirement is also considerably lower, which enables even micro and small enterprises to participate. Furthermore, the regulatory documentation and listing norms are streamlined and simplified, reducing the reliance on high-cost consultants or extensive legal services. This allows SMEs to conserve financial resources while still benefiting from the advantages of a listed company, such as enhanced visibility and market reach. The cost-effective nature of SME listings encourages broader participation from startups and growth-stage companies, enabling them to scale operations and compete more effectively in their respective sectors, thereby strengthening the SME ecosystem in the country (Cao, Li, Koedijk & Gao, 2022).

1.5.2. Flexible listing norms for small enterprises

SME-specific platforms like BSE SME and NSE Emerge have introduced flexible listing norms that are well-suited to the unique needs and limitations of small enterprises. Unlike the stringent requirements of the main board, these platforms have eased entry barriers, making it more accessible for startups and smaller firms to raise capital through public offerings. The eligibility criteria for SME listing focus on business viability and operational track record rather than solely on size or profitability.

For instance, the minimum paid-up capital threshold is significantly lower, and the disclosure requirements are relatively simplified. This ensures that SMEs do not need to undergo the exhaustive and resource-intensive documentation process required for main board listings. Additionally, the mandatory requirement of appointing a market maker for three years ensures liquidity for investors without placing an undue burden on the company. The governance and compliance structures are also designed to be more adaptable, allowing small firms to maintain operational efficiency while meeting regulatory standards. These flexible norms strike a balance between investor protection and entrepreneurial growth, promoting higher participation of SMEs in capital markets and fostering a culture of transparency, accountability, and long-term growth orientation among smaller enterprises (Agostini, Caviggioli, Filippini & Nosella, 2015).

1.6. Rise of SME IPOs in India and Gujarat

Over the past decade, India has experienced a remarkable transformation in the way Small and Medium Enterprises (SMEs) approach financing and business expansion, particularly through public market participation. The increasing number of SMEs opting for Initial Public Offerings (IPOs) marks a fundamental shift in the entrepreneurial landscape, reflecting greater confidence in capital markets, maturing business models, and a broader structural evolution occurring within the SME ecosystem. Historically, SMEs in India relied heavily on bank loans, informal borrowing, and internal accruals to fuel their growth. While these sources offered flexibility, they often proved inadequate for companies seeking to scale up operations, expand into new geographies, or invest significantly in innovation and technological upgrades. The rise of SME IPOs addresses this funding gap by providing a platform for small enterprises to access long-term equity capital, reduce financing constraints, and build financial stability (Arora & Singh, 2025).

This growing trend has been supported by several policy reforms and market developments that have reshaped the investment climate for SMEs. The introduction of dedicated SME exchanges---BSE SME in 2012 and NSE Emerge shortly thereafter---has been among the most transformative milestones. Before these platforms were launched, SMEs struggled to meet the stringent listing requirements of main board exchanges, such as higher profitability thresholds, extensive compliance norms, and larger paid-up capital mandates. The SME platforms have eased these barriers by offering relaxed regulatory requirements, simplified disclosure norms, and a more SME-friendly listing process (Boso, Debrah & Amankwah-Amoah, 2018). These reforms have democratized access to capital markets, allowing smaller firms that possess strong business fundamentals but limited financial scale to tap into public funding. Technological advancements in the securities market have further strengthened this trend. Digitization of trading systems, improved transparency in transactions, and the adoption of online bidding mechanisms have made investing in SME IPOs more accessible for retail investors. Enhanced investor education initiatives and the availability of detailed company information online have also enabled investors to make more informed decisions. These

developments collectively contribute to a more efficient, transparent, and inclusive market ecosystem, encouraging greater participation from both issuers and investors (Appiah-Adu & Boachie, 2017).

The steady rise in SME IPOs also reflects the evolving maturity of Indian small businesses. Many SMEs have moved beyond the early-stage survival phase to become competitive, innovation-driven enterprises with scalable business models. They now recognize the strategic benefits of entering the public market---not only in terms of raising capital but also enhancing corporate governance, increasing brand visibility, and improving credibility with stakeholders such as suppliers, banks, and customers. Listing on a stock exchange acts as a stamp of trust, demonstrating a company's commitment to transparency, accountability, and long-term growth. As a result, SMEs across sectors including manufacturing, technology, engineering, food processing, pharmaceuticals, and renewable energy are increasingly embracing IPOs as a growth strategy. The rise in investor interest has further fueled this momentum. Retail investors have begun to appreciate the high-growth potential of SME stocks, which often enter the market at lower valuations compared to established companies. Institutional investors---including domestic funds, alternative investment funds (AIFs), and high-net-worth individuals---are also increasingly participating in SME IPOs, drawn by the prospects of strong returns and sectoral diversification. This shift in investor behavior reflects a more sophisticated understanding of India's evolving economic landscape, where SMEs are recognized as critical drivers of innovation, employment, and industrial expansion (Culkin & Simmons, 2018b).

Among all Indian states contributing to this SME IPO boom, Gujarat has emerged as a consistent and commanding frontrunner. The state's deep-rooted entrepreneurial culture has long been recognized as one of its defining strengths. Generations of business communities in Gujarat---particularly in Ahmedabad, Surat, Rajkot, Vadodara, and Morbi---have cultivated a mindset that values risk-taking, business innovation, and long-term wealth creation. This cultural foundation creates a natural environment for enterprises to consider public listings as a viable and attractive option for business expansion.

Gujarat's industrial clusters play a pivotal role in shaping this momentum. The state is home to some of India's largest and most successful clusters in textiles,

diamonds, engineering goods, chemicals, pharmaceuticals, and ceramics. These clusters not only provide market access but also foster knowledge-sharing, supply chain efficiencies, and technological advancements---factors that enhance the growth potential and investment appeal of Gujarat-based SMEs. The robust infrastructure, including well-developed industrial parks, seamless logistics networks, and strategic port connectivity, further strengthens the competitiveness of SMEs in the region. Such infrastructure reduces operational costs and enables Gujarat-based companies to integrate more effectively into both domestic and global markets (al Masud & Uluyol, 2024).

Policy initiatives have also significantly contributed to Gujarat's leadership in SME IPO activity. The state government has introduced several schemes to support industrial development, including financial incentives, subsidies, advisory support, and facilitation centers that assist SMEs with regulatory compliance. Moreover, Gujarat's strong institutional ecosystem---comprising merchant bankers, chartered accountants, consultants, and industry associations---has played an essential role in guiding SMEs through the IPO process. These stakeholders help companies prepare prospectuses, meet disclosure requirements, and adopt governance practices needed to gain investor trust (Alvarado & Olivares, 2022). The increasing number of SME IPOs originating from Gujarat is a testament to the region's economic vibrancy and the readiness of its enterprises to embrace capital markets. Many firms from the state have demonstrated impressive post-listing performance, delivering solid returns to investors and signaling the robustness of their business models. These success stories inspire other SMEs in the region and across India to explore IPOs as a strategic avenue for growth. They also reinforce the perception of Gujarat as an industrial powerhouse and a breeding ground for high-potential small businesses (Alnafrah, Mouselli & Shhadah, 2025).

Importantly, the growth of SME IPOs in Gujarat mirrors broader changes in investor preferences. Investors today are more willing to look beyond traditional large-cap stocks and explore promising opportunities in emerging sectors and regional markets. Gujarat's SMEs, known for their entrepreneurial dynamism and operational efficiency, align well with this shift. Their growing presence on public exchanges strengthens the diversity of India's capital markets and

contributes to a more inclusive financial ecosystem. Overall, the surge in SME IPOs across India---and the leading role played by Gujarat---highlights a significant structural evolution in the country's business environment. It reflects a growing belief among entrepreneurs in the power of public markets and a rising willingness among investors to support smaller enterprises. This transformation not only enhances capital access for SMEs but also contributes to India's long-term economic resilience, industrial diversification, and innovation-driven growth trajectory (Acuña-Opazo & González, 2021).

1.6.1. Growth trend in SME listings post-2013

The growth trajectory of SME listings in India, particularly after 2013, marks a transformative phase in the country's capital market landscape. The year 2012 witnessed the launch of two SME-dedicated platforms---BSE SME and NSE Emerge---initiated by the Securities and Exchange Board of India (SEBI) with the aim of providing smaller enterprises with better access to equity capital. However, the impact of these platforms became more visible post-2013, as awareness increased and the regulatory environment became more conducive to SME participation.

From 2013 onwards, there has been a consistent upward trend in the number of SMEs opting to go public. The initial hesitation among business owners, mainly due to fear of disclosure, compliance costs, and public scrutiny, gradually gave way to a more progressive mindset. Entrepreneurs began to realize the long-term benefits of listing, such as improved credibility, enhanced valuation, and access to permanent capital. This led to a steady rise in the number of SMEs entering the capital market. By the end of 2023, over 450 SMEs had been listed on the BSE SME platform and more than 250 on NSE Emerge, with several more in the pipeline. The sectors represented include manufacturing, pharmaceuticals, textiles, IT services, chemicals, and consumer goods, reflecting the broad industrial base of Indian SMEs. This sectoral diversity also indicates the expanding investor confidence in the potential of smaller enterprises to deliver long-term value.

Gujarat has played a leading role in this growth story. Known for its strong business culture, well-developed infrastructure, and investor-friendly policies,

Gujarat has emerged as one of the top states contributing to SME IPO listings. Cities like Ahmedabad, Vadodara, Rajkot, and Surat have become important hubs for SME listings. The Gujarat-based SMEs have shown better preparedness in terms of compliance, disclosure, and governance, which has made them attractive to both retail and institutional investors. The rise in SME listings post-2013 is also a reflection of broader financial inclusion in the equity markets. As more small enterprises gain access to public funding, it promotes balanced regional development and strengthens the overall economy. The trend suggests an ongoing shift in India's capital market structure, wherein smaller firms are no longer sidelined but are increasingly seen as growth engines of the future (Corvino, Romano & Spadafora, 2010).

1.6.2. Gujarat's prominence in SME contributions

Gujarat has long been recognized as one of India's most economically vibrant states, and its rise as a powerhouse for Small and Medium Enterprises (SMEs) underscores the dynamic entrepreneurial spirit that characterizes the region. Over the decades, the state has developed a deeply rooted culture of business innovation, risk-taking, and community-driven enterprise development. This cultural inclination toward entrepreneurship has played a foundational role in shaping Gujarat's SME landscape, allowing it to emerge as one of the country's leading contributors to industrial output, exports, and employment generation. The presence of strong business communities, such as those in Ahmedabad, Surat, Rajkot, and Vadodara, further reinforces this environment, fostering business networks and knowledge-sharing platforms that help new ventures grow rapidly (al Farooque, Buachoom & Sun, 2020).

The state's supportive industrial policies have also been instrumental in fueling SME development. Gujarat has consistently positioned itself as an investor-friendly region through policies designed to minimize bureaucratic hurdles, streamline regulatory processes, and provide financial and infrastructural support to small businesses. Government schemes such as the Gujarat Industrial Policy, the MSME Incentive Scheme, and the Gujarat Industrial Development Corporation's (GIDC) initiatives have collectively contributed to a robust support system for SMEs. These policies offer benefits including capital subsidies, interest subsidies, tax incentives, and simplified procedures for setting

up and expanding industrial units. Moreover, Gujarat's focus on cluster-based development---particularly in sectors like textiles, ceramics, pharmaceuticals, and engineering---has helped SMEs achieve economies of scale, access shared facilities, and improve competitiveness (Boulanouar, Grassa & Alqahtani, 2024).

Infrastructure development is another crucial factor behind Gujarat's SME success story. The state boasts one of the most well-developed industrial infrastructures in India, with a dense network of industrial estates, special economic zones, and logistics corridors. The availability of world-class ports, reliable power supply, efficient transportation systems, and digital connectivity has significantly reduced transaction costs for SMEs. Ports such as Mundra, Kandla, and Pipavav enable seamless export operations, making Gujarat a pivotal player in India's export ecosystem. This solid infrastructure foundation allows SMEs to operate efficiently, expand into new markets, and integrate more effectively into national and global value chains.

Furthermore, Gujarat's SMEs play a vital role in promoting innovation and technological advancement. Many small enterprises in the state have embraced digital tools, automation, and modern manufacturing technologies to enhance productivity and meet global quality standards. Government-led initiatives such as iCreate, the Gujarat Start-up and Innovation Policy, and various incubation centers have encouraged young entrepreneurs and small business owners to experiment with new ideas, collaborate with research institutions, and bring innovative products to market. This climate of innovation strengthens the competitiveness of SMEs and prepares them to access larger avenues of funding, including capital markets.

In the specific context of SME Initial Public Offerings (IPOs), Gujarat has demonstrated remarkable performance compared to many other Indian states. A substantial number of companies listed on platforms such as BSE SME and NSE Emerge originate from Gujarat, reflecting the entrepreneurial confidence and financial maturity prevalent in the state. Cities like Ahmedabad, Rajkot, Surat, and Vadodara have emerged as major hubs for SME IPO activities, hosting firms from industries as diverse as engineering, renewable energy, textiles, consumer goods, chemicals, and IT services. These companies have not only

shown impressive operational performance but have also displayed a strong willingness to embrace transparency, regulatory compliance, and corporate governance norms---qualities essential for entering the public markets (Carbone, Mussolino & Viganò, 2024).

One of the distinguishing factors behind Gujarat's success in the SME IPO segment is the proactive approach adopted by its business owners. Traditionally known for their business acumen, entrepreneurs in the state understand the importance of accessing long-term growth capital through equity financing. The trend of SMEs opting for public listing has gained momentum in Gujarat, driven by increasing awareness about the advantages of IPOs, including improved brand visibility, enhanced credibility among stakeholders, better access to capital, and opportunities for expansion. Local merchant bankers, financial consultants, and industry associations have played a supportive role by guiding SMEs through the listing process, helping them meet compliance norms, and preparing them for investor scrutiny (Adomako, Danso, Uddin & Damoah, 2016).

Additionally, the supportive regulatory ecosystem established by SEBI and the dedicated SME platforms has contributed to Gujarat's strong presence in the IPO domain. The introduction of mechanisms such as minimum public shareholding norms, detailed disclosures, and post-listing governance requirements has instilled greater investor confidence. Gujarat-based SMEs have been early adopters of these regulatory frameworks, which not only facilitates smoother listings but also enhances investor trust. Their adherence to good financial practices, audited statements, and transparent reporting has led to higher levels of investor participation in the IPOs of companies from the region (Abbas, Ahmad-Zaluki & Mehmood, 2023).

The success of Gujarat's SMEs in the stock market also acts as a catalyst for other small enterprises across India. The visibility and performance of these listed companies inspire confidence among entrepreneurs nationwide, demonstrating that public listing is not limited to large corporations but is also within reach for well-managed SMEs. This ripple effect contributes to India's broader objective of strengthening the SME sector by diversifying funding avenues, encouraging formalization, and promoting financial discipline

(Čirjevskis, 2017).

In a broader economic context, the prominence of Gujarat in the SME IPO space adds significant value to the state's economic profile. It enhances capital formation, drives innovation-led growth, and attracts attention from national and international investors. More importantly, the success of SME IPOs contributes to economic decentralization by promoting regional industrial development and reducing dependence on traditional metropolitan centers. Gujarat's example illustrates how a supportive ecosystem, strong governance standards, and a culture of entrepreneurship can collectively create a thriving environment for SMEs to grow and compete in public markets. Overall, the rise of Gujarat as a leading state for SME development and IPO performance is the outcome of a combination of cultural strengths, policy support, infrastructural excellence, and entrepreneurial initiative. This achievements positions Gujarat as a model for other Indian states aiming to strengthen their SME ecosystem and integrate small businesses more effectively into the national growth narrative (Almeer, 2025).

1.7. Growing Investor Interest in SME IPOs

In recent years, investor interest in Small and Medium Enterprise (SME) Initial Public Offerings (IPOs) has witnessed a marked upswing in India. This rising enthusiasm reflects broader transformations occurring within the Indian entrepreneurial ecosystem, where SMEs have increasingly demonstrated their capacity for innovation, rapid scalability, and long-term value creation. Traditionally overshadowed by large-cap and mid-cap stocks, SMEs are now emerging as viable and attractive investment options for retail investors, high-net-worth individuals, and even institutional participants. Several factors have contributed to this shift, including the growing number of SME success stories on India's dedicated SME platforms, enhanced regulatory oversight, expanding investor awareness, and favorable policy interventions that encourage the formalization and growth of smaller enterprises (del Sarto, 2025).

One of the strongest driving forces behind this surge in investor interest is the increasing visibility of successful SME IPOs. Over the past decade, numerous SMEs that debuted on platforms like BSE SME and NSE Emerge have shown

strong post-listing performance, sometimes outperforming their main-board counterparts in terms of returns, profitability, and growth. These success stories have influenced market sentiment significantly, helping investors perceive SME IPOs not as risky propositions but as opportunities to participate in early-stage public companies with substantial growth potential. Many of these firms operate in high-demand sectors such as technology, chemicals, specialty manufacturing, engineering solutions, pharmaceuticals, renewable energy, and consumer products. Their ability to grow rapidly with limited capital---combined with their lean structures, flexibility, and focus on niche domains---makes them particularly attractive to investors seeking long-term wealth creation (Gabrielsson, Sasi & Darling, 2004).

Another major factor contributing to heightened investor interest is the relatively lower entry cost associated with SME IPOs. While main-board IPOs often involve larger issue sizes and higher valuations that may be prohibitive for small investors, SME IPOs typically offer more accessible investment thresholds. This allows retail investors to enter at an early stage of a firm's public journey, potentially reaping higher returns if the company expands significantly over time. The "early entry advantage" has always appealed to investors in the start-up and venture capital domains, and SME exchanges now provide a regulated and transparent environment for similar opportunities in the public market. The possibility of identifying high-growth firms early and staying invested through their expansion phase is a key motivator for investors with a medium- to long-term investment horizon (Hamza, Barka, Verdie & al Sayah, 2024).

A significant regulatory transformation has also played a crucial role in fostering greater investor confidence in SME IPOs. Under the supervision of the Securities and Exchange Board of India (SEBI), platforms like BSE SME and NSE Emerge have implemented robust mechanisms aimed at ensuring transparency, accountability, and enhanced governance practices among listed SMEs. Mandatory disclosures, periodic financial reporting, and adherence to strict post-listing compliance norms have become integral components of the listing framework. These requirements encourage firms to adopt stronger internal controls, improve financial discipline, and demonstrate responsible governance practices. For investors, these measures reduce information

asymmetry---one of the most important concerns in SME investing---thus enabling more informed decision-making (Gora & Yadav, 2024).

The introduction of minimum trading lots for SME stocks has helped maintain market stability by discouraging excessive speculative trading. While this may limit short-term liquidity, it fosters a more mature investor base and encourages long-term investment behavior. The higher involvement of merchant bankers, who play a critical role in evaluating the viability of SME listings and ensuring compliance, has also strengthened the credibility of SME IPOs. SEBI's continuous monitoring, coupled with periodic reforms, has gradually built a more resilient ecosystem that protects investor interests without stifling the growth aspirations of SMEs (Haldar, Datta & Shah, 2020).

The appeal of SME IPOs is also rooted in the diversification benefits they offer. Many investors prefer to diversify their portfolios beyond traditional blue-chip, large-cap, and mid-cap stocks. SME stocks provide access to industries, clusters, and business models that are often underrepresented in the main board. SMEs tend to operate in niche segments, emerging markets, or specialized product categories where large corporations may have limited presence. This enables investors to hedge portfolio risks by adding firms that are likely to respond differently to macroeconomic conditions compared to larger entities. For instance, a portfolio containing SME stocks from sectors like renewable energy technology, precision engineering, specialty chemicals, or agro-processing may offer resilience during periods when broader markets face volatility. The potential for SMEs to capitalize on localized demand, innovate faster, and leverage unique market insights makes them crucial components of a well-diversified investment portfolio.

Another important driver of rising investor interest is the growing maturity of India's entrepreneurial landscape. The integration of technology across sectors has allowed SMEs to improve their operational efficiency, customer outreach, and scalability. Many SMEs adopting digital-first strategies have demonstrated strong revenue growth, operational expansion, and profitability improvements. Investors view these technology-driven SMEs as dynamic and future-ready businesses capable of competing effectively in both domestic and global markets. The presence of well-developed industrial clusters across states---such

as textiles in Gujarat and Tamil Nadu, engineering hubs in Maharashtra, pharmaceuticals in Telangana and Gujarat, and IT services in Karnataka---provides SMEs with unique competitive advantages. When such cluster-based SMEs list on stock exchanges, investors gain access to regionally specialized and sectorally focused companies with deep-rooted strengths (Gaikwad & Dörrenbächer, 2022).

Government schemes and reforms have further reinforced the attractiveness of SME IPOs. Initiatives such as Make in India, Startup India, Digital India, and the Aatmanirbhar Bharat Abhiyan have emphasized SME development, innovation adoption, and financial inclusion. These measures signal strong policy support, encouraging investors to view the SME sector as a key engine of India\'s economic growth. Tax incentives, credit facilitation programs, and simplified compliance mechanisms have also fostered a more supportive environment for SMEs planning to access capital markets. The recognition of SME exchanges as a critical pillar of capital formation means that regulatory agencies and financial institutions continue to strengthen the SME listing ecosystem, directly benefiting investors.

The rise of investment awareness programs and financial education initiatives has also impacted investor behavior positively. As more investors become familiar with the structure, risks, and opportunities of SME IPOs, they are better equipped to evaluate offerings and make informed investment choices. This awareness helps reduce misconceptions about SME risks while highlighting long-term potential and governance improvements brought about by listing requirements.

Overall, the increasing interest in SME IPOs reflects a broader shift in India's investment landscape where investors are actively seeking new avenues of growth and diversification. The convergence of successful case studies, stronger regulatory frameworks, greater transparency, and maturing entrepreneurial capabilities has created a favorable environment for SME investing. While risks remain---such as lower liquidity, higher volatility, and sector-specific vulnerabilities---the long-term prospects of SMEs continue to attract investors seeking strong, sustainable returns. SME IPOs have evolved into an important channel for wealth creation, portfolio diversification, and participation in India's

vibrant and expanding entrepreneurial economy.

1.8. Need to Study SME IPO Performance

1.8.1. Growing Importance of SME IPOs in Industry.

The growing presence of Small and Medium Enterprises (SMEs) on India's stock exchanges, particularly through dedicated platforms such as BSE SME and NSE Emerge, has generated considerable interest among investors, policymakers, scholars, and entrepreneurial communities. Over the past decade, the SME capital market ecosystem in India has witnessed a structural transformation driven by regulatory reforms, technological advancements, digitalization of financial markets, and increased awareness among business owners about the advantages of formal equity financing. These developments have gradually reduced the barriers that previously prevented SMEs from accessing capital markets.

As a result, an increasing number of SMEs from diverse sectors, regions, and ownership backgrounds have opted to go public through Initial Public Offerings (IPOs). SME IPO platforms have provided smaller firms with an opportunity to raise long-term capital, enhance their market credibility, and expand their business operations. These platforms have also encouraged SMEs to adopt improved corporate governance practices and financial transparency. Despite this growing momentum and increased participation of SMEs in public markets, a significant knowledge gap remains regarding the empirical evaluation of their post-IPO performance. While the number of SME listings continues to increase, systematic academic investigation into how these companies perform after listing remains limited, particularly when compared to the extensive body of literature available on traditional main-board IPOs.

1.8.2. Limited Academic Research on SME IPO Performance

Most existing academic research and market analyses continue to focus primarily on large-cap and mid-cap IPOs listed on the main boards of the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). These IPOs attract significant attention because of their large issue sizes, broader investor participation, higher liquidity, and strong media visibility.

Consequently, researchers have extensively examined their pricing behavior, investor response, and long-term performance.

In contrast, SME IPOs remain relatively underexplored despite their increasing numerical presence and economic relevance. SME IPO issues are generally smaller in scale, often raising modest amounts of capital compared to main-board offerings. Trading volumes of SME stocks are also typically lower, and the investor base is relatively limited. Additionally, SME exchanges operate under specialized regulatory frameworks that differ from mainstream boards, which further complicates comparative analysis. Because of these differences, many scholars have overlooked SME IPOs in empirical research.

The absence of comprehensive studies focusing on SME listings leaves several important questions unanswered. For instance, it remains unclear whether SME IPOs consistently enhance firm value, strengthen financial performance, or generate sustainable returns for investors. Similarly, there is limited understanding of whether public listing helps SMEs improve their governance practices, expand their operational capabilities, or achieve long-term business stability. This lack of systematic evaluation highlights the need for focused research that examines SME IPO performance in greater detail.

1.8.3. Structural Characteristics of SME Exchange

Another major reason behind the limited empirical evaluation of SME IPOs lies in the unique structural characteristics of SME exchanges. Companies that apply for SME listings are typically smaller, younger, and often family-owned enterprises. Many of these firms originate from regional industrial clusters and operate within specialized sectors such as manufacturing, engineering, textiles, pharmaceuticals, and food processing.

The issue sizes of SME IPOs are generally modest, often ranging from a few crores to approximately fifty crores. Due to this smaller scale, the investor base tends to be more concentrated, primarily consisting of high-net-worth individuals, specialized institutional investors, and certain professional investors who are familiar with SME markets. As a result, trading volumes in SME stocks are relatively lower compared to main-board stocks.

Lower liquidity levels can lead to higher price volatility and thinner order books,

which sometimes discourage broader investor participation. This environment also makes it more difficult for researchers to analyze price movements, investor behavior, and market efficiency using traditional empirical models. Additionally, many SMEs may have limited or inconsistent financial data prior to listing, as several of these firms operated privately with informal or semi-formal financial reporting systems. These structural factors make the analysis of SME IPO performance more complex and require more contextualized research approaches.

1.8.4. Unique Determinants of SME IPO Performance

Another important research gap emerges from the distinct variables that influence the performance of SME IPOs. Traditional IPO literature typically focuses on factors such as underpricing, oversubscription levels, valuation techniques, market timing, and long-term stock returns. While these determinants remain relevant for SME IPOs, the performance of smaller enterprises is often shaped by additional context-specific variables.

Factors such as firm age, promoter credibility, ownership structure, business scalability, technological capability, and corporate governance maturity play a significant role in influencing investor perceptions and post-listing outcomes for SME firms. Investors often rely heavily on the reputation and experience of promoters when evaluating SME IPOs, as these companies may lack long financial track records.

Furthermore, the role of merchant bankers and underwriters is particularly important in SME IPOs. These intermediaries frequently specialize in SME listings and play a crucial role in issue structuring, investor outreach, and subscription management. Their credibility and expertise can significantly affect investor confidence and listing performance. In addition to these factors, broader market sentiment, liquidity conditions, regulatory changes, and regional economic dynamics can also influence the performance of SME stocks. These multiple variables highlight the need for comprehensive empirical analysis that captures the unique characteristics of SME capital markets.

1.8.5. Influence of Regional Entrepreneurial Ecosystems

Analyzing SME IPOs also requires understanding the broader entrepreneurial

ecosystem in which these enterprises operate. Unlike large corporations that operate across national or international markets, many SMEs rely heavily on localized business environments. Their operations are often closely connected to regional industrial clusters, supply chain networks, and local market dynamics.

SMEs depend on local ecosystems for access to raw materials, skilled labor, technological support, and distribution channels. Cluster-based industrial development plays an important role in shaping the competitiveness and sustainability of SMEs. Therefore, evaluating SME IPO performance requires a multidimensional perspective that goes beyond financial indicators. Researchers must also consider operational efficiency, innovation capacity, industrial cluster advantages, and regional policy support mechanisms that influence firm performance.

1.8.6. Gujarat as a Significant SME IPO Hub

Gujarat represents an ideal region for studying SME IPO performance due to its strong industrial base and deeply rooted entrepreneurial culture. The state has long been recognized as one of India's most dynamic business hubs, supported by favorable government policies, well-developed infrastructure, strong market connectivity, and a long tradition of trade and entrepreneurship.

Several cities in Gujarat, including Ahmedabad, Surat, Rajkot, Vadodara, Morbi, and Vapi, have developed into prominent industrial clusters specializing in sectors such as textiles, engineering goods, diamonds, ceramics, pharmaceuticals, chemicals, and food processing. These clusters provide SMEs with unique advantages, including access to skilled manpower, specialized knowledge networks, supportive ancillary industries, and efficient supply chain systems.

Over the past decade, Gujarat has emerged as one of the leading contributors to SME listings on BSE SME and NSE Emerge platforms. A significant number of companies from the state have utilized SME IPOs as a strategic tool to raise long-term capital, expand production capacity, upgrade technology, and enhance brand visibility. The presence of a strong entrepreneurial ecosystem, combined with active participation from merchant bankers, financial advisors, and investors, has encouraged many SMEs in Gujarat to transition from privately

managed businesses to publicly listed companies.

1.8.7. Importance of Regional Analysis of SME IPOs

Studying SME IPOs in Gujarat offers valuable insights not only at the firm level but also at the regional and policy levels. For example, analyzing whether SMEs from Gujarat demonstrate stronger post-IPO performance compared to firms from other states can reveal the extent to which regional advantages influence capital market outcomes.

Additionally, understanding how IPO proceeds are utilized by SMEs provides important information about their strategic priorities. Companies may use the raised capital for various purposes such as debt repayment, working capital improvement, modernization of production facilities, technological innovation, or expansion into new markets. Examining these investment decisions helps determine whether IPO financing effectively supports sustainable business growth.

Regional studies also allow researchers to evaluate the effectiveness of policy initiatives designed to support SME development. Government programs such as the Gujarat Industrial Policy, MSME facilitation initiatives, and streamlined regulatory mechanisms play a crucial role in shaping the readiness of SMEs to access public capital markets. A region-focused approach can also identify differences in performance across industrial clusters and reveal how regional economic conditions influence investor confidence and firm success.

1.8.8. Need for Evaluating Post-IPO Financial and Market Performance

Another critical dimension of SME IPO research involves examining post-IPO financial performance. IPOs are generally perceived as instruments that help firms unlock growth opportunities, strengthen financial stability, and improve corporate governance. However, the actual outcomes may vary significantly among firms.

Some SMEs may experience substantial improvements in profitability, liquidity, and financial leverage after listing due to improved capital availability and better governance structures. Others may struggle to maintain operational efficiency or face increased competition, market volatility, or management challenges after raising capital. Therefore, systematic evaluation of financial indicators before

and after IPO listing is essential to understand how effectively SMEs utilize public capital.

Investor returns also represent an important parameter in assessing the success of SME IPOs. Because SME stocks often exhibit lower liquidity and higher volatility than main-board stocks, their risk-return dynamics may differ considerably. Long-term stock performance, price stability, and trading behavior must therefore be analyzed to determine whether SME IPOs provide attractive investment opportunities.

1.8.9. Need for Comprehensive Empirical Research

In summary, the increasing number of SME IPOs in India highlights the growing importance of understanding their post-listing outcomes through systematic empirical research. Although the SME capital market has experienced significant growth and regulatory support, scholarly attention toward SME IPO performance remains limited. This creates a substantial research gap in the academic literature.

Investigating SME IPO performance, particularly in regions such as Gujarat with strong SME-driven industrial ecosystems, provides valuable insights into firm growth patterns, investor behavior, regional economic dynamics, and policy effectiveness. Such research can help entrepreneurs make informed decisions regarding public listing, assist regulators in refining SME capital market policies, and enable investors to better evaluate risk and return characteristics of SME stocks. Ultimately, a comprehensive analysis of SME IPO performance contributes to the development of a more inclusive, efficient, and transparent capital market system in India while strengthening the role of SMEs as drivers of economic growth and industrial development.

1.9. Conclusion

Chapter 1 has laid the foundation for understanding the growing relevance and complexities associated with Small and Medium Enterprises (SMEs) and their entry into public capital markets, especially in the context of Gujarat. SMEs are widely recognized as the backbone of the Indian economy, playing a vital role in

GDP contribution, employment generation, innovation, and regional industrial development. Their presence across diverse sectors and geographies highlights their significance in both rural and urban economic ecosystems. Financing remains one of the most critical challenges for SMEs. Limited access to formal credit, over-reliance on informal sources, lack of credit history, and the high cost of borrowing often constrain their growth potential. In response to these challenges, Initial Public Offerings (IPOs) have emerged as a viable financing alternative for SMEs. IPOs not only offer long-term funding solutions but also enhance visibility, improve credibility, and attract a broader investor base, enabling further diversification and business expansion.

The establishment of SME-specific platforms such as BSE SME and NSE Emerge by SEBI has been a landmark step in democratizing access to equity capital for smaller firms. These platforms have simplified listing norms and tailored eligibility requirements to suit the needs of emerging businesses. As a result, India---particularly Gujarat---has witnessed a sharp rise in SME IPOs post-2013, underlining the success of these regulatory interventions. Despite this upward trend, there remains a significant gap in understanding the actual performance of SME IPOs in the post-listing period. While investor interest continues to grow, supported by higher transparency and return potential, empirical studies on SME IPO performance, particularly within specific states like Gujarat, are limited. Evaluating such performance is crucial to assessing whether IPOs truly lead to business growth and whether they serve the long-term interests of both issuers and investors.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter presents a comprehensive review of existing academic and empirical literature related to Small and Medium Enterprises, capital market financing, and SME Initial Public Offerings. It critically examines prior studies that discuss the role of SMEs in economic development, their financing challenges, and the importance of equity markets in supporting business growth. The chapter also reviews research related to IPO performance, investor behavior, post-listing financial outcomes, and factors influencing the success of SME listings. By analyzing global and Indian research contributions, the chapter highlights the theoretical frameworks and methodological approaches adopted by previous scholars in studying SME financing and IPO markets. Particular attention is given to studies focusing on emerging economies and regulatory reforms that promote SME participation in capital markets. The literature review helps identify the key research gaps, especially regarding the performance and determinants of SME IPOs in regional contexts such as Gujarat. Based on these gaps, the chapter establishes the relevance of the current research and forms the intellectual foundation for developing research objectives, hypotheses, and analytical frameworks.

2.1.1 Introduction to the Literature Review

The purpose of this literature review is to explore the existing body of research related to small and medium enterprises (SMEs), entrepreneurship, market orientation, innovation, corporate governance, and financial access, with a particular emphasis on the role of educational and institutional interventions in shaping business sustainability and performance. The review integrates both national and international scholarly contributions to identify major theoretical developments, methodological approaches, and empirical findings that explain SME growth, financing mechanisms, and long-term resilience.

The studies examined in this chapter cover diverse geographical contexts, including South Asia, Southeast Asia, Latin America, and Europe. By

incorporating research from multiple regions, the review provides a comparative understanding of how institutional frameworks, cultural environments, and market dynamics influence entrepreneurial outcomes and business sustainability. The chapter begins with bibliometric and conceptual insights that outline the evolution of SME research. It then proceeds with thematic discussions focusing on innovation and entrepreneurship, governance and leadership, access to finance and market mechanisms, and the role of macroeconomic and institutional environments. Finally, the chapter highlights key research gaps and discusses the implications of existing studies for SMEs operating in developing economies.

2.1.2 Bibliometric and Conceptual Developments in SME Research

In recent years, bibliometric and content-based analyses have become valuable tools for identifying patterns, research trends, and intellectual structures within academic disciplines. These techniques help scholars understand how research fields evolve over time and which topics receive the most scholarly attention.

Esmaeili Givi et al. (2022) conducted a bibliometric and altmetric analysis of The Journal of Intellectual Capital, highlighting the development of knowledge-based resources and intellectual capital research. Their study emphasized the growing importance of intangible assets, knowledge management, and intellectual capital in enhancing organizational competitiveness. Similarly, Thomas et al. (2022) performed a systematic bibliometric review of strategic entrepreneurship literature and identified innovation, opportunity recognition, and value creation as the dominant themes shaping entrepreneurial research.

Indarti et al. (2021) further extended bibliometric analysis to the field of ethnic entrepreneurship, demonstrating how cultural diversity, migrant networks, and community support systems influence entrepreneurial success in emerging markets. Their research revealed that social capital and community-based networks play a significant role in supporting entrepreneurial resilience. Together, these bibliometric studies provide an intellectual framework for understanding the evolution of entrepreneurship and SME research, highlighting innovation, knowledge resources, and dynamic capabilities as key drivers of SME competitiveness.

2.1.3 Innovation and Market Orientation in SME Performance

Innovation and market orientation have emerged as central determinants of SME performance, particularly in rapidly developing and competitive economic environments. SMEs that successfully align their internal capabilities with external market demands are more likely to achieve sustainable growth and competitive advantage. Kamarulzaman et al. (2023) examined agro-food manufacturing firms in Malaysia and found that market orientation and innovative marketing strategies significantly influence firm performance. Their findings suggest that SMEs adopting customer-focused approaches and market-driven innovations can improve both operational efficiency and market competitiveness.

Similarly, Kazemi et al. (2024) investigated the relationship between innovation orientation, competitive intensity, and export entrepreneurship. Their study revealed that innovation-driven strategies enhance export performance, particularly when supported by strong corporate social responsibility (CSR) practices. The integration of innovation and ethical business practices was found to strengthen global competitiveness among SMEs. Rojas-Córdova et al. (2023) explored organizational ambidexterity in innovative SMEs and emphasized the importance of balancing structural mechanisms with social practices. Their research highlighted the role of employee involvement, organizational flexibility, and adaptive leadership in fostering innovation and long-term sustainability. Collectively, these studies indicate that innovation capability, market orientation, and socially responsible practices are essential factors contributing to SME growth and competitiveness.

2.1.4 Corporate Governance and Leadership in SMEs

Corporate governance and leadership structures play a critical role in determining the strategic direction and performance of firms, especially in emerging economies where institutional frameworks are still developing. Effective governance mechanisms can enhance transparency, accountability, and decision-making efficiency within organizations.

Khatib et al. (2023) conducted a global bibliometric study on board diversity and found a growing scholarly focus on gender diversity, cultural diversity, and

professional experience within corporate boards. Their research suggests that diverse boards contribute to improved decision-making and enhanced organizational performance. Yousaf et al. (2022) examined the role of board capital in the Chinese tourism industry and found that board diversity and expertise positively influence firm performance. Their findings indicate that experienced and well-connected board members contribute to effective strategic oversight and improved risk management.

Similarly, Suherman et al. (2023) analyzed the influence of CEO characteristics on firm performance in Southeast Asia. Their study revealed that leadership traits such as educational background, managerial experience, and risk-taking capability significantly impact organizational success. Earlier research by Teixeira Latini et al. (2014) also demonstrated that private equity involvement in Brazilian SMEs improves corporate governance practices, resulting in better management structures and enhanced growth potential. Overall, these studies confirm that governance quality, leadership competence, and board composition are critical determinants of enterprise sustainability.

2.1.5 Access to Finance and Financial Mechanisms for SMEs

Access to finance remains one of the most significant challenges faced by SMEs worldwide. Limited collateral, information asymmetry, and inadequate financial records often restrict SMEs' ability to obtain formal credit from financial institutions.

Kumar et al. (2023) conducted a systematic review on blockchain-based financing mechanisms for SMEs. Their study suggested that distributed ledger technologies can reduce information asymmetry, improve financial transparency, and facilitate alternative credit assessment methods, thereby enhancing access to finance. Wasiuzzaman et al. (2020) examined SME creditworthiness in Malaysia and found that linkages between SMEs and large firms improve financial access. These relationships help signal reliability to lenders and reduce perceived risk, making it easier for SMEs to obtain credit.

Prijadi et al. (2020) investigated the financing needs of micro-enterprises across different stages of business development and concluded that financial requirements vary according to business maturity. Early-stage enterprises

require seed capital and working capital support, while mature firms demand expansion financing. Lieberman et al. (2009) explored the initial public offerings of microfinance institutions and demonstrated how integration with capital markets can enhance financial inclusion and expand funding opportunities for small enterprises. Together, these studies highlight the importance of innovative financing mechanisms, institutional linkages, and financial transparency in overcoming credit constraints faced by SMEs.

2.1.6 Macroeconomic and Institutional Influences on SME Development

The development and sustainability of SMEs are strongly influenced by broader macroeconomic and institutional environments. Economic stability, government policies, and investor confidence significantly shape entrepreneurial ecosystems. Mohamed Riyath et al. (2024) examined IPO activities in Sri Lanka using principal component analysis and found that macroeconomic stability, investor confidence, and monetary conditions significantly influence capital market participation. Mehmood et al. (2024) also emphasized the role of investor behavior and market sentiment in determining IPO demand and market performance.

Hussain et al. (2022) investigated the Pakistani stock market and concluded that corporate governance reforms, financial liberalization, and investor sentiment significantly affect downside systematic risk. Meanwhile, Wang et al. (2021) developed a theoretical framework explaining how government support programs can help SMEs survive during economic crises such as the COVID-19 pandemic. Their findings indicate that targeted financial assistance and regulatory flexibility are crucial in maintaining business continuity during external shocks. These studies collectively emphasize that macroeconomic stability, supportive regulatory frameworks, and proactive policy interventions are essential for promoting SME growth and capital market participation.

2.1.7 Human Capital, Culture, and Entrepreneurial Behavior

Entrepreneurship research also highlights the importance of human capital, cultural context, and managerial behavior in determining SME success. Owner characteristics, managerial capabilities, and cultural values significantly influence business decision-making and growth outcomes. Marconatto et al. (2022) conducted a meta-analysis examining determinants of SME growth

across multiple countries. Their study concluded that entrepreneur characteristics such as education level, managerial experience, and motivation play a significant role in determining firm expansion and sustainability.

In a subsequent study, Marconatto et al. (2024) explored how SMEs that engaged in strategic planning prior to crises demonstrated greater resilience during the COVID-19 pandemic. Their findings highlight the importance of strategic foresight, proactive planning, and organizational learning. Kutan et al. (2021) reviewed literature linking national culture with corporate financial decisions and found that cultural norms significantly influence managerial risk preferences and investment behavior. These insights illustrate the complex relationship between human behavior, cultural values, and entrepreneurial performance.

2.1.8 Research Gaps Identified in Existing Literature

Despite the extensive research on entrepreneurship, governance, innovation, and financial mechanisms, several gaps remain within the SME literature. Many studies rely heavily on bibliometric analyses or cross-sectional research designs, which provide limited insights into long-term firm performance.

Furthermore, much of the existing research is concentrated in developed economies, leaving emerging and developing markets relatively underexplored. While international literature offers strong theoretical frameworks, the application of these frameworks in localized contexts such as India or other developing economies remains limited.

Another significant gap lies in integrating multiple dimensions of SME development. Existing studies often examine innovation, governance, finance, or entrepreneurship separately rather than adopting a holistic approach that combines behavioral, institutional, and technological perspectives. There is therefore a need for comprehensive research that examines how educational programs, institutional support mechanisms, and policy interventions influence SME sustainability and resilience.

2.1.9 Conclusion

The literature reviewed in this chapter highlights the multidimensional nature of SME development, linking innovation, governance, finance, and human capital

with broader socioeconomic and institutional contexts. By synthesizing findings from diverse national and international studies, the review provides a comprehensive foundation for understanding the factors that influence SME growth and sustainability.

Although the field of SME research has evolved significantly in recent years, substantial opportunities remain for further investigation, particularly in developing economies. Future studies must focus on bridging theoretical frameworks with practical policy interventions that support entrepreneurial ecosystems. Integrating insights from governance, innovation, finance, and human capital perspectives will be essential for developing more resilient and sustainable SME sectors worldwide (Esmaeili Givi et al., 2022).

2.2 Role of technology, governance, and macroeconomic factors

Small and Medium Enterprises (SMEs) are widely acknowledged as the backbone of both emerging and developed economies due to their significant contribution to employment, innovation, and GDP. SMEs are generally defined based on quantitative measures such as number of employees, annual turnover, and investment in assets, though definitions vary by country and institution. The characteristics of SMEs typically include smaller scale operations, limited access to external financing, flexibility in decision-making, and a higher dependency on owner-manager leadership structures (Wang et al., 2025). In emerging markets, SMEs are particularly vital for fostering local entrepreneurship and enhancing regional competitiveness. However, they often face persistent financial constraints due to lack of credit history, collateral, and information asymmetry, which limit their growth potential and sustainability (Wasiuzzaman et al., 2020). To overcome these barriers, SMEs often seek innovative financing mechanisms such as venture capital, crowdfunding, and initial public offerings (IPOs) to expand their operational capabilities and achieve long-term growth (Teixeira Latini et al., 2014).

The financial ecosystem surrounding SMEs is complex, as it combines elements of entrepreneurship, corporate governance, and market dynamics. Recent research highlights that SME performance is strongly influenced by managerial characteristics, innovation capacity, and strategic adaptability to changing

market conditions (Suherman et al., 2023). During periods of economic uncertainty, government intervention and targeted financial programs play a crucial role in sustaining SME activity and ensuring resilience (Wang et al., 2021). For example, theoretical models based on SME support during crises, such as the COVID-19 pandemic, emphasize how government incentives, subsidies, and digital finance tools contribute to maintaining liquidity and operational continuity. This interdependence between policy frameworks and entrepreneurial ecosystems underlines the importance of efficient market mechanisms, including SME IPOs, in strengthening financial inclusion and investor participation.

An Initial Public Offering (IPO) represents the process through which a private firm offers its shares to the public for the first time, transforming into a publicly listed company. The IPO process allows firms to raise substantial capital, increase market visibility, and enhance corporate governance through regulatory scrutiny and transparency requirements. In the context of SMEs, IPOs have become an essential avenue to access long-term funding, particularly after the establishment of SME-specific platforms such as India's BSE SME and NSE Emerge, which have simplified listing norms and reduced entry barriers for smaller firms (Agrawal, 2024). The process of SME IPOs typically involves underwriting, pricing, regulatory approval, and public issuance. However, these offerings are often characterized by greater uncertainty and information asymmetry compared to large-firm IPOs, resulting in distinctive market behaviors such as underpricing and volatile aftermarket performance (Siwach & R., 2025).

The motivations behind firms opting for IPOs extend beyond capital raising. They also aim to improve reputation, attract strategic investors, and provide exit opportunities for venture capitalists. In emerging economies, macroeconomic conditions, policy reforms, and institutional quality play significant roles in shaping IPO trends (Mohamed Riyath et al., 2024). For instance, studies from Sri Lanka indicate that inflation, interest rates, and GDP growth significantly influence IPO volume and pricing efficiency. Similarly, research on investor sentiment and regulatory quality has shown that market perceptions and governance transparency critically determine the degree of investor demand and

pricing anomalies (Mehmood et al., 2024). These insights underline that SME IPO performance is not only a reflection of firm-specific fundamentals but also of broader macroeconomic and institutional frameworks.

The concept of underpricing remains central to IPO research, representing the phenomenon where the offer price of an IPO is set lower than the market price observed on the first day of trading. Underpricing is often interpreted as a reward to investors for bearing information risk and uncertainty, especially in emerging and less mature markets. Studies in Asian contexts, including India and China, demonstrate that underpricing levels tend to be higher among SME IPOs due to limited analyst coverage and lower investor familiarity (Bhullar et al., 2024; Xie et al., 2025). Arora and Singh (2025) observed that ownership concentration and board monitoring significantly moderate underpricing behavior in Indian SME IPOs, suggesting that strong governance structures can mitigate information asymmetry and improve pricing efficiency. Conversely, market sentiment and political uncertainty have been found to exacerbate underpricing tendencies by amplifying perceived risk (Xie et al., 2025).

Another key concept in IPO literature is listing gain, defined as the percentage increase in share price on the listing day relative to the issue price. Listing gains are a short-term indicator of investor sentiment and demand-supply dynamics. Mehmood et al. (2024) emphasized that investor demand for IPOs, driven by behavioral biases and market optimism, often leads to significant listing gains during bullish periods. However, the sustainability of these gains depends on the firm's post-listing performance and fundamentals. In the case of SME IPOs, excessive listing gains may not always indicate strong long-term potential, as smaller firms are more prone to speculative trading and liquidity constraints. Thus, while listing gains attract retail investors, they also raise concerns about valuation rationality and pricing fairness in SME markets.

Aftermarket performance, which refers to the long-term return behavior of IPO stocks post-listing, provides deeper insights into the efficiency of pricing mechanisms and investor behavior. Studies have shown that while IPOs often generate positive abnormal returns in the short run, their long-term performance tends to underperform market benchmarks (Deng & Liu, 2024). For SME IPOs, the pattern is even more pronounced due to limited analyst coverage, lower

institutional participation, and weaker corporate governance mechanisms. Agrawal (2024) reported that new-age ventures and loss-making firms, despite experiencing substantial initial listing gains, often witness declining performance over time. These findings align with international evidence that highlights the role of firm fundamentals, ownership structure, and external market factors in determining aftermarket outcomes (Ahmed et al., 2024).

The determinants of IPO performance are multifaceted. Macroeconomic factors such as liquidity conditions, monetary policy, and investor confidence influence both the volume of IPOs and their market outcomes (Mohamed Riyath et al., 2024). At the firm level, factors like innovation capability, managerial quality, and governance practices significantly affect valuation and investor perceptions. Almeer (2025) found that innovation-driven SMEs exhibit stronger export performance and growth potential, which in turn enhances market appeal during IPOs. Similarly, Suherman et al. (2023) emphasized the role of CEO characteristics, such as experience and education, in shaping firm outcomes and investor trust. These managerial aspects also align with the broader notion that SMEs rely heavily on the strategic and ethical orientation of their leaders to navigate complex financial environments.

Moreover, the integration of technology and financial innovation has redefined the SME financing landscape. The rise of machine learning and fintech-based investment platforms has improved transparency and predictive accuracy in IPO analysis (Albada et al., 2025). Alnafrah et al. (2025) highlighted how crowdfunding and digital inclusion initiatives have increased participation from diverse investor groups, thereby reducing traditional financing bottlenecks. Such developments complement formal capital market mechanisms like SME IPOs, collectively enhancing financial inclusivity. Further, the emerging discourse around environmental, social, and governance (ESG) considerations and intellectual capital underscores how intangible assets contribute to firm valuation and market confidence (Tan et al., 2025; Wang et al., 2025). These intangible dimensions are increasingly relevant for SMEs aiming to attract sustainable and responsible investors.

In summary, the evolving landscape of SME financing and IPO performance reflects the dynamic interplay between firm-level capabilities, investor

psychology, and institutional frameworks. The definitions and characteristics of SMEs highlight their entrepreneurial essence and structural vulnerabilities, while the overview of IPOs and SME IPOs demonstrates their growing role as a strategic funding alternative. Concepts like underpricing, listing gain, and aftermarket performance provide valuable lenses to evaluate market behavior and efficiency. Recent literature reveals that while SME IPOs have democratized access to equity markets, they remain exposed to pricing inefficiencies, macroeconomic fluctuations, and governance challenges. Addressing these issues through enhanced regulatory frameworks, digital finance tools, and investor education can foster a more resilient and transparent SME IPO ecosystem in emerging economies.

2.3 Theoretical Background :

2.3.1 Pecking Order Theory

The Pecking Order Theory, first introduced by Myers and Majluf, continues to serve as one of the most influential frameworks in understanding corporate financing behavior. The theory asserts that firms do not treat all sources of financing equally; instead, they follow a clear hierarchical preference that begins with internal financing, followed by external debt, and finally equity issuance as the last resort. This preference structure is rooted in the idea of information asymmetry the unequal distribution of information between managers, who have in-depth knowledge of the firm's true value and prospects, and outside investors, who must rely on publicly available information. Because investors may perceive new equity issuance as an indication that managers believe the firm is overvalued, firms often avoid issuing equity unless absolutely necessary. This behavioral logic becomes even more pronounced in small and medium enterprises (SMEs), where informational opacity, weak financial documentation, and limited investor familiarity amplify the effects of information asymmetry.

In the SME context, the Pecking Order Theory gains particular relevance due to the structural characteristics of these enterprises. SMEs frequently operate with constrained financial resources, limited retained earnings, and minimal buffer capital. Their organizational structures are often informal, with financial practices that lack the sophistication required to satisfy formal lending

institutions. As a result, SMEs rely heavily on internal financing primarily retained earnings and owner infusions to support day-to-day operations and incremental expansions. Studies such as Hamza et al. (2024) highlight that SMEs tend to prioritize internal cash flows before approaching formal lenders, and even when external funding is sought, the preference leans strongly toward debt rather than equity. This aligns with the core assumptions of the Pecking Order Theory that firms prefer financing options that minimize the need for external disclosure and reduce the potential for misinterpretation by investors.

The financing hierarchy becomes particularly evident when SMEs consider capital-intensive investments or attempts at business expansion. Debt is often favored over equity due to the control implications associated with equity issuance. SME owners, many of whom are first-generation entrepreneurs, are particularly reluctant to dilute ownership or cede strategic control to external shareholders. Even when debt financing is available, the high collateral requirements, stringent repayment terms, and elevated interest rates imposed by banks make this route challenging. Nevertheless, SMEs opt for debt because it avoids the signaling problems associated with equity issuance. The reluctance to issue equity also stems from the higher transaction costs, compliance burdens, and public scrutiny that accompany equity financing factors that further reinforce the pecking order preference.

Recent studies have expanded the conversation around the Pecking Order Theory by examining how competitive intensity and economic policy uncertainty influence SME financing behavior. Hamza et al. (2024) show that in France, SMEs operating in highly competitive markets tend to modify their financing hierarchy depending on external environmental pressures. Under conditions of heightened uncertainty, firms become cautious in their investment decisions and prefer to rely on internal resources to avoid risky financial commitments. However, when competitive forces require rapid scaling or strategic investments, SMEs may deviate from the traditional pecking order by seeking external financing earlier than expected. This suggests that while the theory provides a strong baseline explanation, external environmental dynamics introduce practical variations in behavior.

In the Indian context, corporate governance and managerial decision-making

structures exert a strong influence on adherence to the Pecking Order Theory. Singh and Rastogi (2024) note that SMEs with robust governance frameworks those maintaining transparent accounting practices, documented financial histories, and strong internal controls tend to follow the pecking order more faithfully. By prioritizing internal funding and prudent debt management, these firms demonstrate disciplined financial behavior that aligns with long-term strategic objectives. Conversely, SMEs with weak governance mechanisms often deviate from the traditional financing hierarchy by seeking external equity prematurely, particularly through IPOs. These deviations are frequently driven by urgent liquidity needs, inadequate internal cash flows, or strategic misalignment rather than deliberate financial planning. In such cases, IPOs are pursued not as a long-term capital-building strategy but as a necessary response to financial distress, thereby contradicting the normative assumptions of the Pecking Order Theory.

Globalization has further complicated financing decisions by exposing SMEs to international competition and pushing them toward innovation-driven growth models. As firms invest more heavily in research and development, technology adoption, and market expansion, the need for external capital becomes unavoidable. Kazemi et al. (2024) observe that innovation-oriented SMEs experience higher capital intensity and face longer gestation periods for returns, making internal financing insufficient. However, despite the increased need for funding, these firms still face higher issuance costs and investor skepticism due to information asymmetry. As a result, even innovation-driven SMEs prefer debt over equity to avoid the adverse signaling associated with issuing new shares. This reinforces the core logic of the Pecking Order Theory, even in the context of high-growth, innovation-focused enterprises.

Emerging economies such as India, Indonesia, and Vietnam have attempted to address the longstanding financing gaps faced by SMEs through the establishment of SME-focused IPO platforms. The introduction of platforms like BSE SME and NSE Emerge in India has eased some of the regulatory and procedural barriers associated with equity financing. These platforms allow SMEs to access public equity markets with reduced compliance requirements and more flexible listing norms. While these reforms provide SMEs with a

viable alternative to traditional funding routes, they do not completely eliminate the underlying challenges of information asymmetry. As a result, SMEs continue to view IPOs as a strategic decision that is typically pursued only after exhausting internal funds and debt options. The timing of IPOs among SMEs further supports the pecking order logic, as firms generally seek public equity only when internal resources and debt become insufficient to meet their expansion goals.

In practice, the Pecking Order Theory helps explain why SMEs are often cautious in their financial behavior, particularly during the pre-IPO stage. Internal funds serve as the primary mode of financing, followed by debt---despite the challenges associated with collateral and interest rates. Equity issuance remains a last resort due to signaling concerns, ownership dilution, compliance burdens, and the complexities of navigating capital markets. Even with policy reforms and dedicated SME platforms, the fundamental hierarchy persists, underscoring the theory's relevance to contemporary SME financing decisions.

In conclusion, the Pecking Order Theory provides a robust framework for understanding SME financing behavior, especially in environments marked by uncertainty, competition, and information asymmetry. The theory successfully explains the cautious and strategic approach SMEs adopt when choosing between internal funds, debt, and equity. While external market forces and governance structures may introduce deviations, the fundamental preference hierarchy remains intact. For SMEs considering pre-IPO strategies and public market participation, the Pecking Order Theory continues to offer valuable insights into the financial decision-making process and the broader dynamics shaping SME access to capital.

2.3.2 Signaling Theory

Signaling Theory provides a powerful lens for understanding how firms navigate information asymmetry---one of the most persistent challenges in financial markets. According to the theory, firms deploy observable, credible, and often costly signals to communicate their underlying quality to external stakeholders, especially investors who lack access to complete information. These signals serve to differentiate high-quality firms from low-quality ones, thereby reducing

uncertainty and allowing investors to make more informed decisions. In the context of Initial Public Offerings (IPOs), where investors must evaluate firms with limited historical performance data, signaling becomes even more crucial. Decisions related to governance structures, auditor selection, board composition, underwriter reputation, and disclosure quality all function as deliberate signals intended to convey organizational strength and long-term potential.

One of the most widely examined mechanisms in IPO signaling is the board structure and its attributes. High-quality firms often incorporate experienced, diverse, and independent directors as a signal of strong governance and oversight. Harjayanti et al. (2024) demonstrated that in Indonesia, board gender diversity is interpreted as an especially strong positive signal by investors. Gender-diverse boards are seen as reflective of progressive leadership, improved decision quality, and greater stakeholder inclusiveness. The study found that firms with greater gender diversity tend to experience reduced underpricing---a common phenomenon in IPOs where the offer price is set below market value due to uncertainty. By reducing investor skepticism through visible, progressive governance structures, gender-diverse boards effectively narrow the gap between perceived and actual firm value.

Beyond governance attributes, signaling can also take more subtle forms. Hendrawan and Utama (2024) highlighted a unique dimension of signaling in IPO contexts by examining how the facial trustworthiness of executives influences investor decision-making. In their study, the perceived trustworthiness derived from executive facial features significantly affected pricing behavior and market reactions. This finding underscores that investors respond not only to quantitative indicators but also to intangible cues that shape their beliefs about managerial integrity and leadership quality. Such signals are particularly influential in emerging markets, where formal governance structures may be evolving and investors rely more heavily on observable cues to compensate for limited firm-level information.

The relevance of signaling theory becomes even more pronounced in the context of SMEs. Unlike large corporations, SMEs typically face acute challenges related to information asymmetry due to their smaller scale, limited operating history, and often inadequate financial disclosures. These constraints make it

difficult for potential investors to assess the firm\'s true value, thereby increasing perceived risk. Consequently, SMEs must rely heavily on deliberate and credible signaling to enhance their legitimacy and attract investor interest during the IPO process. Signals such as hiring experienced leadership, implementing strong governance controls, and showcasing innovation capabilities help SMEs differentiate themselves from competitors and reassure the market about their future performance.

Studies like those by Kazemi et al. (2024) and Singh and Rastogi (2024) indicate that SMEs increasingly use signals related to strategic orientation and managerial competence to attract investors. The disclosure of innovation strategies, for instance, often serves as a powerful indicator of forward-looking growth potential and competitive resilience. Investors interpret such transparency as a sign that the firm is not only aware of emerging market challenges but is also prepared to adapt and innovate. In rapidly evolving industries, innovation signals become essential markers of sustainability and long-term survival, particularly for SMEs aiming to scale their operations through public funding.

Another important category of signaling in SME IPOs is intellectual capital disclosure. Wadhwa and Sahoo (2024) emphasize that intangible assets---such as human capital, organizational knowledge, technological capabilities, and relational networks play a significant role in shaping investor perceptions. Their study found that SMEs that disclose intellectual capital more comprehensively tend to experience higher subscription rates during the IPO. This reflects investors' growing recognition that intangible resources often serve as a foundation for sustainable growth, especially in technology-driven or knowledge-based industries. Intellectual capital disclosure reduces ambiguity about internal competencies and indicates managerial professionalism, strategic clarity, and long-term value creation.

Beyond firm-level signals, the broader regulatory and ethical environment also shapes investor responses. Mehmood et al. (2024) documented that regulatory quality acts as a macro-level signal that influences investor confidence and IPO demand. In markets where the regulatory framework is perceived as strong, transparent, and predictable, investors are more willing to invest in SMEs

despite their inherent risks. Conversely, weak regulatory environments amplify uncertainty and reduce subscription rates. The same study also found that Shariah-compliant status functions as an important ethical and cultural signal in many markets, particularly those with sizable Muslim investor populations. Shariah-compliance is interpreted as a sign of ethical alignment, reduced speculative behavior, and adherence to socially responsible business practices, ultimately attracting investors who prioritize ethical standards in their portfolio decisions.

Signaling in SME IPOs is not limited to pre-issue characteristics; post-issue behavior also plays a critical signaling role. Aftermarket performance, timely financial disclosures, and consistent earnings announcements serve as ongoing signals of credibility and operational stability. Firms that maintain good governance practices and meet disclosure timelines build long-term trust among investors, thereby reducing the discount rates applied to future offerings. On the other hand, firms that fail to deliver on their stated promises or exhibit poor communication practices often experience post-listing volatility, reduced investor confidence, and damaged reputations. Thus, signaling theory extends beyond the initial IPO event and influences investor perceptions throughout the firm\'s lifecycle.

The costliness of signals is a core tenet of signaling theory, and this is particularly evident in the case of SMEs. High-quality signals such as hiring reputable auditors, adopting robust governance frameworks, or maintaining transparent reporting systems require significant investment and effort. Only firms with genuine underlying quality can afford such signals, making them difficult for low-quality firms to imitate. This costliness enhances the credibility of the signals and ensures that they serve as effective tools for distinguishing strong SMEs from weaker ones during the IPO process.

In summary, Signaling Theory provides an essential framework for understanding how SMEs navigate information asymmetry during IPOs. Through governance structures, leadership characteristics, disclosure practices, innovation signals, and compliance with ethical or regulatory standards, SMEs convey their underlying quality to the market. These signals shape investor perceptions, reduce uncertainty, and influence both short-term IPO outcomes

such as underpricing and subscription rates and long-term post-listing performance. The evidence from Harjayanti et al. (2024), Hendrawan and Utama (2024), Wadhwa and Sahoo (2024), Kazemi et al. (2024), Singh and Rastogi (2024), and Mehmood et al. (2024) collectively underscores that signaling is an indispensable element of SME IPO strategy. In environments characterized by limited information and heightened investor skepticism, effective signaling becomes not just beneficial but necessary for SMEs aspiring to build trust, attract capital, and achieve sustainable growth in public markets.

2.3.3 Agency Theory

Agency Theory offers a foundational lens for examining the inherent conflicts of interest that arise when decision-making authority is delegated from principals (shareholders) to agents (managers). The theory posits that managers may not always act in the best interests of owners due to information asymmetry, misaligned incentives, and personal utility maximization. These frictions result in agency costs, manifested through monitoring expenditures, bonding mechanisms, and residual losses. In the context of small and medium-sized enterprises (SMEs), these conflicts tend to be pronounced because of the unique organizational structures, ownership patterns, and governance capabilities that characterize smaller firms. Prior to going public, many SMEs operate under concentrated ownership dominated by founders or family groups, which leads to a distinct set of pre-IPO agency dynamics. Post-listing, however, the structure shifts, introducing dispersed ownership and greater public scrutiny, thereby reshaping existing conflicts while generating new ones. Understanding these evolving conflicts is essential for comprehending how SMEs navigate the IPO process and how governance mechanisms can mitigate agency problems to enhance performance and investor confidence.

In private SMEs, owner--manager conflicts often arise when founders delegate authority to hired managers as the firm grows. Since many SMEs lack formal governance mechanisms, managers may possess substantial control without corresponding oversight, generating opportunities for opportunistic behavior. These may include shirking, self-serving decision-making, or adopting strategies that favor personal comfort over shareholder value. Upon transitioning to public ownership, the nature of agency conflict shifts as the original owners must share

control with external shareholders. Sultan et al. (2024) emphasized that such structural changes necessitate the adoption of effective governance mechanisms---including board independence, audit committees, and disclosure systems---to reduce agency costs and maintain accountability. Their findings suggest that SMEs with more developed governance practices prior to the IPO stage are better positioned to manage the complexities of public listing. These firms tend to exhibit stronger performance post-IPO, greater compliance with regulatory requirements, and improved investor perception due to their demonstrated commitment to transparency and governance discipline.

The IPO process itself heightens agency conflicts because managers may have incentives to portray the firm in an overly favorable light to secure better pricing and subscription outcomes. This tendency often takes the form of earnings management, where managers manipulate financial reports to meet perceived investor expectations. Narang and Pradhan (2024) highlighted that such pre-IPO earnings management behavior can significantly influence anchor investor decisions. Anchor investors, who are generally sophisticated and equipped with advanced analytical tools, are capable of detecting managerial opportunism. When such distortions are identified, anchor investors may reduce participation or discount their valuations, negatively affecting overall IPO performance. This dynamic illustrates how agency-driven actions taken prior to an IPO can have real and immediate consequences in terms of investor behavior and market reception. Hence, transparency and quality reporting become crucial tools in minimizing agency issues and projecting credibility during the IPO process.

Corporate governance plays a central role in mitigating agency problems, especially as SMEs transition into publicly traded entities. Research in emerging markets has consistently demonstrated that robust governance structures enhance managerial accountability and reduce the potential for opportunistic practices. Singh and Rastogi (2024), in their configurational study on Indian SMEs, found that well-balanced governance structures---particularly boards composed of individuals with diverse expertise---create an environment conducive to effective oversight. Their findings indicate that no single governance mechanism works in isolation; instead, it is the interplay of board composition, independence, and functional diversity that ultimately shapes

financial performance. Such multifaceted governance frameworks better align managerial incentives with those of shareholders, leading to stronger decision-making quality, strategic clarity, and value maximization.

Board diversity, particularly gender diversity, has also emerged as a significant factor influencing agency outcomes. Mvita and du Toit (2024) reported that gender-diverse boards contribute to improved organizational accountability, broadened perspectives, and enhanced governance quality. This aligns with broader corporate governance literature suggesting that diversity mitigates groupthink, encourages more rigorous deliberation, and reduces the likelihood of managerial entrenchment. For SMEs preparing for IPOs, these attributes are especially beneficial as they reassure investors that the firm possesses the governance maturity necessary to operate in a public environment. The presence of women in leadership roles can also serve as a symbolic and functional indicator of modern, transparent, and accountable management practices, further reducing perceived agency risk.

SMEs face additional challenges because they often lack the resources needed to implement comprehensive governance systems. Limited financial and human capital may hinder their ability to appoint specialized board committees, hire experienced auditors, or establish sophisticated internal control mechanisms. As a result, the IPO becomes more than a capital-raising opportunity it also acts as a catalyst for governance improvement. Going public subjects SMEs to stricter regulatory frameworks, mandatory disclosures, periodic reporting, and shareholder scrutiny. These requirements create institutional pressures that can reduce agency problems by compelling firms to formalize governance structures and enhance transparency. Pan (2024) highlighted the significance of employee ownership as an innovative governance tool that helps align incentives between internal and external stakeholders. Employee shareholding strengthens commitment, fosters long-term thinking, and reduces the likelihood of opportunistic behavior, thereby functioning as a valuable mechanism for reducing agency costs in SMEs post-IPO.

Another critical aspect of Agency Theory in the context of SME IPOs relates to post-listing monitoring. Once the firm is listed, investors, analysts, and regulatory bodies continuously evaluate its financial performance, strategic

decisions, and governance practices. Effective monitoring restricts managerial discretion and ensures that decisions are aligned with shareholder interests. SMEs that adopt high-quality disclosure practices, maintain strong internal controls, and engage in timely communication tend to build trust among investors and analysts. Conversely, inadequate disclosure or inconsistent communication can lead to increased skepticism, amplified agency costs, and heightened price volatility. The post-IPO environment, therefore, plays a crucial role in reinforcing governance discipline and reducing agency conflicts over time.

The long-term success of SME IPOs depends heavily on how firms manage ongoing agency challenges after listing. Managers must balance growth objectives with the expectations of diverse investor groups, including institutional investors, retail shareholders, and regulatory authorities. Firms that effectively address agency conflicts tend to experience higher investor loyalty, stable share prices, and improved reputational capital. Agency Theory thus provides a comprehensive framework for understanding the evolving relationship between SME managers and shareholders throughout the IPO lifecycle. From pre-IPO disclosures to post-listing performance, governance mechanisms grounded in accountability, transparency, and incentive alignment remain central to minimizing agency costs and ensuring sustained organizational success.

In summary, Agency Theory offers a valuable perspective for analyzing the governance and behavioral challenges SMEs encounter during the IPO process. The transition from private to public ownership amplifies existing agency conflicts while introducing new complexities associated with dispersed ownership and regulatory scrutiny. Studies by Sultan et al. (2024), Singh and Rastogi (2024), Mvita and du Toit (2024), Narang and Pradhan (2024), and Pan (2024) collectively underscore the importance of effective governance, diverse boards, transparent disclosures, and incentive alignment in mitigating agency risks. These mechanisms not only influence IPO pricing and investor participation but also shape the long-term sustainability and performance of SMEs in the public market. By embracing governance reforms and prioritizing accountability, SMEs can successfully navigate the agency challenges inherent

in public listing and enhance their position in the increasingly competitive capital market landscape.

2.3.4 Market Timing Theory

Market Timing Theory offers one of the most influential behavioral explanations for why and when firms choose to issue equity. At its core, the theory suggests that managers take advantage of temporary mispricing in financial markets by issuing shares when valuations are high and repurchasing or avoiding issuance when valuations are low. This strategic behavior is motivated by the desire to minimize dilution, maximize capital raised, and exploit windows of opportunity shaped by investor sentiment and macroeconomic conditions. While the theory applies to firms of all sizes, it carries heightened relevance for small and medium-sized enterprises (SMEs), which are more vulnerable to market fluctuations, informational inefficiencies, and sentiment-driven pricing deviations. The decision to go public through an Initial Public Offering (IPO) thus becomes not simply a financing choice, but a strategic calculation about timing, visibility, and perceived firm quality in the eyes of the market.

In the SME context, the reliance on market timing becomes even more pronounced due to the higher level of information asymmetry these firms face. Their limited operational history, smaller asset base, and constrained disclosure infrastructure reduce transparency, making them more susceptible to the effects of investor sentiment. When markets exhibit bullish conditions characterized by optimism, liquidity abundance, and high risk appetiteinvestors become more willing to price SME equities favorably despite underlying uncertainties. This creates an optimal issuance window for SMEs. Conversely, when markets turn bearish or volatile, the willingness of investors to absorb risk declines sharply, and pricing becomes more conservative. SMEs, lacking strong signaling power relative to larger firms, often respond by delaying or withdrawing their offerings. Gupta et al. (2023) found that economic uncertainty substantially affects the long-run performance of SME IPOs, indirectly underscoring the role of timing decisions. Firms that enter the market during uncertain conditions struggle to sustain momentum, while those that capitalize on favorable environments are more likely to achieve superior long-term outcomes.

The influence of extraordinary events on market timing behavior is also well

documented. Wigantini and Nainggolan (2023), in their examination of ASEAN IPOs, demonstrated how pandemic-induced fear altered aftermarket liquidity patterns. During the COVID-19 pandemic, investor risk perceptions shifted dramatically, leading to periods of heightened volatility and unpredictable liquidity. These findings highlight that SMEs, lacking resilience and wide market following, are disproportionately affected by such shocks. Timing decisions during periods of crisis thus become highly sensitive to shifts in sentiment, as managers must weigh the urgency of capital needs against the potential for adverse pricing. In periods of widespread pessimism, even fundamentally strong SMEs may experience discounted valuations, discouraging public issuance.

Beyond sentiment, regulatory environments also shape the effectiveness of market timing. Mehmood et al. (2024) observed that regulatory quality moderates the influence of investor demand on IPO pricing, suggesting that markets with stronger regulatory frameworks tend to dampen extreme pricing anomalies. For SMEs, this means that timing opportunities may be less pronounced in tightly regulated markets but more predictable and less risky. Conversely, in loosely regulated environments where disclosure standards and investor protection measures are weaker, the timing advantage may be larger but accompanied by higher pricing inefficiencies. This interplay between regulation, sentiment, and timing highlights the theoretical richness of Market Timing Theory when applied to SME IPOs.

Managerial behavior around the IPO process also reinforces the timing motive. Narang and Pradhan (2024) reported that pre-IPO earnings management is often aligned with favorable market cycles. This suggests that firms preparing to go public may strategically present inflated performance metrics during periods of high investor optimism to secure better valuations. Although earnings management is an agency-driven behavior, its synchronization with favorable market cycles reflects a clear timing strategy. Managers exploit optimistic sentiment to make the firm appear more attractive, aligning organizational narratives with broader market enthusiasm. This demonstrates how behavioral finance, governance issues, and market timing mutually reinforce one another in shaping IPO outcomes.

Ownership structures can further enhance or constrain market timing behavior. Arora and Singh (2023) found that concentrated pre-IPO ownership has significant effects on underpricing in Indian SME IPOs. Highly concentrated ownership may motivate founders to time the market aggressively, as strategic issuance during periods of high valuations can yield substantial personal and organizational benefits. Concentrated owners often possess better access to private information and exhibit greater control over timing decisions. Their ability to influence disclosure practices, coordinate IPO strategies, and capitalize on sentiment-driven cycles gives them an advantage in optimizing market entry. Conversely, firms with more dispersed pre-IPO ownership face greater coordination challenges, which may reduce their ability to perfectly time the market.

Investor heterogeneity also contributes to timing outcomes. Albada et al. (2023) highlighted how divergent investor beliefs amplify initial returns in IPOs. When investors interpret the same information differently due to behavioral biases, optimism cycles, or speculative motives the resulting disagreement can lead to higher volatility and exaggerated pricing. SMEs issuing equity in such environments experience stronger timing effects, as optimistic cohorts may drive excessive initial returns, while skeptical investors adjust prices later. This divergence is particularly pronounced in markets with lower analyst coverage and weak institutional participation. In such cases, retail investors often more sentiment-driven play a larger role, creating windows of opportunity for SMEs to capitalize on short-lived enthusiasm.

Macro-level factors further influence the timing of IPOs. Jamaani and Alawadhi (2023) demonstrated that macroeconomic forces such as inflation significantly affect IPO withdrawals. When inflation rises, borrowing costs increase, investor risk tolerance declines, and future earnings become less predictable. These shifts make public issuance less appealing, leading firms to postpone or cancel offerings. This phenomenon underscores that timing is not solely about capitalizing on positive sentiment but also avoiding adverse conditions. For SMEs, which are particularly sensitive to macroeconomic instability, timing decisions based on inflation risk, interest rate fluctuations, and growth expectations become essential for survival and successful market entry.

An important implication of Market Timing Theory is its connection to long-term performance. Firms that successfully time the market may raise substantial capital at attractive valuations, but the long-run performance can vary depending on whether issuance was driven by genuine growth prospects or temporary overvaluation. For SMEs, the long-term credibility of the business is significantly influenced by whether the IPO is perceived as strategically timed or opportunistically executed. While timing during bullish phases may lead to short-term gains, excessive exploitation of investor optimism can result in long-term underperformance if fundamentals do not justify the valuation. This dynamic reinforces the critical importance of balancing timing considerations with operational readiness, strong disclosures, and credible governance structures.

In summary, Market Timing Theory provides a comprehensive framework for understanding how SMEs navigate the complex interplay of valuation cycles, investor sentiment, macroeconomic forces, and regulatory environments when deciding the optimal moment to go public. Empirical studies by Gupta et al. (2023), Wigantini and Nainggolan (2023), Mehmood et al. (2024), Narang and Pradhan (2024), Arora and Singh (2023), Albada et al. (2023), and Jamaani and Alawadhi (2023) collectively demonstrate that timing decisions are influenced by economic uncertainty, investor psychology, ownership concentration, divergent beliefs, and macroeconomic shocks. For SMEs, mastering the dynamics of market timing is not merely a tactical decision---it is a strategic imperative that shapes pricing efficiency, investor relations, and long-term credibility in capital markets.

2.3.5 Relevance of These Theories to SME IPOs

The integrated application of Pecking Order, Signaling, Agency, and Market Timing theories provides a comprehensive framework for understanding SME IPO behavior. Each theory captures distinct yet interrelated dimensions of financing decisions, information asymmetry, and investor interaction. The Pecking Order Theory explains SMEs' cautious approach to external financing, emphasizing their tendency to go public only after internal and debt resources are depleted. Signaling Theory complements this by elucidating how SMEs communicate their quality to potential investors through governance, innovation,

and transparency. Agency Theory introduces an internal governance perspective, explaining how IPOs alter control structures and monitoring mechanisms, while Market Timing Theory situates SME IPOs within broader macroeconomic and behavioral contexts.

The relevance of these theories becomes particularly pronounced in emerging economies where SME capital markets are evolving. As demonstrated by Singh and Rastogi (2023, 2024), corporate governance reforms and strategic financial management frameworks play a pivotal role in aligning theoretical principles with practical outcomes. Empirical evidence across studies such as those by Mehmood et al. (2024), Harjayanti et al. (2024), and Gupta et al. (2023) confirms that SME IPOs are influenced by a confluence of internal factors (ownership, innovation, signaling) and external forces (regulatory quality, sentiment, market cycles). For instance, Wadhwa and Sahoo (2024) highlighted that intellectual capital acts as both a signal and a performance determinant, bridging the gap between signaling and agency perspectives. Likewise, Pan (2024) and Sultan et al. (2024) showed that employee ownership and governance discipline reinforce long-term performance, supporting the agency-based rationale for going public.

In the contemporary financial landscape, the intersection of these theories underscores that SME IPO success depends on more than just market conditions it reflects strategic alignment between firm characteristics, investor expectations, and institutional quality. Integrating these theoretical lenses allows for a multidimensional understanding of SME IPO performance, providing a foundation for empirical investigation and policy formulation aimed at enhancing SME capital market efficiency.

2.4 Literature on SME Financing Challenges

Small and Medium Enterprises (SMEs) form the backbone of most emerging economies, contributing significantly to employment, innovation, and regional development. Despite their economic importance, SMEs often face systemic financing challenges that hinder their sustainability and growth. The literature identifies three core dimensions of this issue: limited access to formal credit, institutional and policy barriers, and inadequate financial literacy affecting

market participation. The following review synthesizes recent studies addressing these challenges, highlighting global and Indian perspectives.

2.4.1 Limited Credit Access and Informal Financing Dependence

Limited access to formal finance remains one of the most persistent challenges facing SMEs across economies. Traditional lenders often perceive SMEs as high-risk borrowers due to insufficient collateral, limited credit histories, and high monitoring costs. Hourvouliades (2022) emphasized that small firms frequently experience the "agony of securing funding," as conventional banking systems tend to favor larger corporations with established reputations and stable revenue streams. Consequently, SMEs resort to informal sources such as personal savings, family loans, or trade credit, which restrict scalability and innovation potential.

Studies in emerging markets underline how informational asymmetry amplifies these challenges. Singh and Pillai (2022) reviewed corporate governance practices in SMEs and concluded that weaker governance structures often discourage banks and institutional investors from providing credit. Similar observations were made by Gaikwad and Dörrenbächer (2022), who discussed how even in developed economies like Germany, "gazelle" firms rapidly growing SMEs face a policy conundrum, as public support mechanisms fail to adequately address their financing needs. This highlights that financing constraints are not merely a developing-world issue but a structural concern across economies.

The role of cultural and behavioral factors is also significant. Koch et al. (2022) explored how national culture influences SMEs' access to public equity, finding that societies emphasizing uncertainty avoidance tend to rely less on external equity markets. Such tendencies perpetuate dependence on internal or informal finance, reinforcing the financing gap. Furthermore, research by Bakar and Noordin (2021) in Malaysia demonstrated that ownership concentration and internal capital structure dynamics influence firm survival, showing that SMEs often depend on retained earnings for operational continuity rather than external borrowing.

SME financing challenges also relate to investor sentiment and behavioral

biases. Cao et al. (2022) investigated the emotional cost-of-carry in Chinese markets, finding that investor sentiment significantly affects equity pricing and financing decisions. When investor confidence declines, SMEs struggle more to attract market-based funding. Similar behavioral dimensions were explored by Gupta et al. (2022), who showed that media sentiment plays a substantial role in IPO underpricing, implying that emotional and informational factors collectively determine SME financing success. Thus, both supply-side institutional constraints and demand-side behavioral dynamics contribute to limited credit access.

2.4.2 Studies on Institutional and Policy Barriers

Institutional frameworks and regulatory environments play a crucial role in shaping SME financing opportunities. The literature highlights several policy-related barriers, including cumbersome loan procedures, rigid eligibility norms, and insufficient policy coordination between financial institutions and government agencies. Ghalke, Kumar, and Rao (2022) provided a detailed review of SME financing through public equity in India, noting that despite the establishment of SME exchanges, the participation rate remains low due to procedural complexity and limited investor awareness. Their findings suggest that policy initiatives often fail to address the structural disconnect between small firms and capital market mechanisms.

Institutional barriers are not limited to financial regulations but extend to innovation and internationalization policies. Freixanet and Federo (2022) analyzed the interplay between firm innovation, internationalization, and learning capability, concluding that institutional support systems often fail to create conducive ecosystems for SMEs to expand globally. Similarly, Krishna and Jain (2022) highlighted that collaborative innovation in the Indian pharmaceutical sector is hindered by policy rigidity and weak intellectual property frameworks. These studies underscore that inadequate institutional support limits both financing and innovation-driven competitiveness.

Several authors have also discussed how the digital transformation of finance presents new opportunities and risks for SMEs. Youssef and Mansour (2024) examined the rise of "Factoring 2.0" under the FinTech revolution, suggesting that digital factoring solutions can reduce information asymmetry and provide

SMEs with more flexible short-term financing options. However, the adoption of such innovations remains limited due to regulatory uncertainty and digital skill gaps. Similarly, Sharma (2022) emphasized that while digitalization offers new financing avenues, it also introduces cybersecurity and compliance risks that SMEs are often ill-equipped to handle.

Institutional and policy inefficiencies are also visible in entrepreneurship ecosystems. Sorokin, Froumin, and Chernenko (2022) noted that post-Soviet higher education systems have struggled to integrate entrepreneurial culture into academic curricula, resulting in limited exposure of entrepreneurs to formal financing methods. This institutional gap perpetuates dependency on informal channels. In the Indian context, Singh and Rastogi (2022) found that promoter ownership and market competition directly affect firm value in listed SMEs, implying that institutional quality and market transparency significantly influence performance outcomes. Their research advocates for policy reforms that improve SME disclosure standards and corporate governance to attract greater investor participation.

In addition, the global pandemic has intensified financing challenges by disrupting institutional trust and liquidity flow. Simmons and Culkin (2022) highlighted that post-COVID resource acquisition for innovation has become more difficult, particularly for SMEs attempting to pivot toward digital business models. Harney and Nolan (2022) further argued that human resource management frameworks in SMEs lack resilience and institutional backing, which reduces their ability to navigate financial crises effectively. Collectively, these studies emphasize that while policy initiatives exist to support SMEs, their fragmented implementation and institutional inefficiencies limit real-world impact.

2.4.3 Role of Financial Literacy and Access to Capital Markets

Beyond structural and institutional constraints, financial literacy plays a pivotal role in determining SMEs' ability to access and manage financing. Many small firms lack the financial expertise required to navigate complex capital market instruments or understand risk-return trade-offs. Thongmak (2022) demonstrated that website quality and digital transparency influence the market value of firms listed on the Stock Exchange of Thailand, underscoring how informational

clarity affects investor confidence. This finding implies that financial literacy and digital communication are integral to improving SME market access.

In emerging markets, the transition from informal to formal financing often depends on entrepreneurial awareness and education. Paoloni and Modaffari (2022) found that business incubators can bridge this knowledge gap by fostering sustainable knowledge-sharing between startups and support institutions. Similarly, Muigai and Mungai (2022) illustrated through a Kenyan case study that professionalization and managerial training enhance firm growth by improving financial planning and compliance readiness. These findings indicate that education and capacity-building initiatives are essential complements to financial reforms.

The literature also highlights the importance of investor and managerial understanding of market mechanisms. Mangala and Dhanda (2022) analyzed earnings management in Indian IPOs and found that limited managerial understanding of listing dynamics often leads to suboptimal pricing and post-listing underperformance. In the same context, Ahmad-Zaluki and Badru (2021) emphasized that the intended use of IPO proceeds significantly affects initial returns, suggesting that transparency and strategic communication can improve investor perception and valuation outcomes. Together, these studies suggest that financial literacy affects both sides of the market---entrepreneurs seeking funds and investors allocating capital.

Emerging research also points toward intellectual capital as a determinant of financial performance and financing access. Acuña-Opazo and González (2021) reported that intellectual capital components human, structural, and relational---directly influence firm value and value-added in Chilean manufacturing SMEs. Their findings resonate with Bornemann et al. (2021), who reviewed two decades of intellectual capital management in Germany and found that knowledge assets serve as an intangible bridge between innovation and financial performance. Similarly, Chatterjee and Bhattacharjee (2021) showed that innovation and ownership concentration affect firm performance in Indian technology SMEs, underscoring that financially literate and innovation-oriented management teams are better positioned to attract capital.

Several authors have linked financial literacy with global competitiveness. Thakur-Wernz and Wernz (2022) demonstrated that R&D outsourcing improves innovation in vendor firms from emerging economies, provided managers understand the strategic implications of cross-border financing. Likewise, Bilro and Cunha (2021) examined Western firms' failures in China and concluded that misjudgments in financial and cultural literacy lead to resource misallocation and market exit. These findings reinforce the need for holistic financial education that encompasses both domestic and international dimensions.

From a policy perspective, the promotion of financial literacy aligns with sustainable SME development. Yadav and Goyal (2022) presented the case of Zomato's efforts to rebuild partner trust, illustrating how transparent communication and responsible financial practices strengthen stakeholder relationships. Similarly, Bobelyn et al. (2021) found that entrepreneurial exit strategies such as acquisition or merger depend heavily on managers' understanding of financial and marketing capabilities. Therefore, strengthening financial literacy not only facilitates capital access but also enhances strategic decision-making and resilience.

The reviewed literature collectively demonstrates that SME financing challenges are multifaceted, spanning structural, institutional, and behavioral dimensions. Limited access to formal credit and persistent dependence on informal channels reflect deep-rooted issues of information asymmetry and risk perception. Institutional and policy barriers further constrain financing options, as regulatory inefficiencies, insufficient innovation support, and fragmented implementation hinder SME growth. Moreover, inadequate financial literacy exacerbates these problems by restricting entrepreneurs' ability to utilize available instruments effectively.

However, the literature also reveals emerging opportunities through digital finance, business incubators, and intellectual capital development. Studies across contexts India, China, Malaysia, Chile, and Europe emphasize that addressing SME financing challenges requires an integrated approach combining regulatory reform, financial education, and technological adoption. By enhancing financial literacy and institutional quality, policymakers can strengthen SMEs' capacity to transition from informal to formal financing,

thereby fostering sustainable economic growth and inclusion.

2.5 Studies on IPOs: General Insights

The determinants of IPO success have long been a topic of interest within financial and entrepreneurial research. Firm-specific factors such as ownership concentration, capital structure, and innovation capability significantly influence the outcomes of IPOs. Chatterjee and Bhattacharjee (2021) highlighted that ownership concentration positively impacts firm performance and innovation in Indian technology SMEs, suggesting that concentrated ownership may signal managerial confidence to investors. Similarly, Chaklader and Padmapriya (2021) validated the pecking order theory by showing that cash surplus firms prefer internal financing, influencing capital structure decisions and subsequent IPO valuations. These findings underscore that firm-level financial management practices directly shape investor perceptions and IPO success probabilities. Moreover, Liu and Park (2021) emphasized how SMEs can mitigate risk through balanced supply chain dependence, which enhances stability and investor confidence during IPO evaluation.

Market-specific determinants also play a vital role in influencing IPO outcomes. Brochado and Troilo (2021) found that the rise of initial coin offerings (ICOs) as an emergent capital-raising mechanism parallels traditional IPOs in terms of regulatory uncertainty and investor sentiment. These market-level sentiments influence pricing efficiency and underpricing tendencies. Szkuta, Stamenov, and Cunningham (2021) provided evidence that public equity instruments improve firms' innovation outputs, indicating that access to equity markets, such as IPOs, drives productivity and innovation post-listing. The presence of institutional frameworks and government initiatives, as noted by Dong, Xu, and McIver (2021), further supports IPO sustainability by ensuring financial sector transparency and "green finance" disclosures. Collectively, these market conditions establish a supportive ecosystem for successful IPOs by reducing asymmetric information and enhancing long-term firm performance.

Underpricing remains one of the most widely discussed phenomena in IPO literature. Wang and Wang (2021) examined IPO underpricing and long-term performance in China, attributing significant price deviations to regulatory

policies such as price limits. Their findings revealed that while short-term underpricing benefits early investors, it often leads to overvaluation and weaker long-term returns. This aligns with global patterns where market inefficiencies and investor sentiment lead to abnormal returns during the initial trading days. Sethi et al. (2020) further demonstrated how online investor discussions on financial message boards influence stock market behavior, reinforcing the psychological dimensions behind IPO underpricing. Their machine-learning-based analysis suggested that collective sentiment amplifies volatility, making underpricing both a behavioral and structural outcome of capital market dynamics.

The long-term performance of IPOs is often determined by managerial, structural, and governance-related factors. Sri Artini and Sandhi (2021) compared SME stock portfolios across India, Indonesia, and China, finding that SME stocks underperform manufacturing firms in the long run due to liquidity and governance challenges. He and Krähenmann (2021) added that the stigma associated with entrepreneurial failure discourages risk-taking post-IPO, adversely affecting firm growth trajectories. Similarly, Bornemann, Alwert, and Will (2021) traced two decades of intellectual capital management in Germany, illustrating that firms leveraging intellectual capital systematically outperform others in sustaining long-term market value after listing. Their insights indicate that intellectual capital disclosure during the IPO stage can serve as a non-financial determinant of long-term performance.

Promoter holding and managerial ownership are key firm-specific factors influencing IPO outcomes. al Farooque, Buachoom, and Sun (2020) found that board structure and ownership concentration significantly improve financial performance in Thai firms. Their results resonate with Indian market realities where higher promoter holdings often signal confidence and alignment of interests, reducing information asymmetry between investors and issuers. Kulshrestha and Patro (2021) explored how intellectual capital reporting after mandatory IFRS adoption enhances transparency, which can indirectly impact investor trust during IPOs. Transparent reporting by promoters and firms acts as a moderating factor that minimizes underpricing and supports sustainable post-listing performance.

Underwriter reputation has been equally recognized as a determinant of IPO success and pricing efficiency. Hashemi Joo, Nishikawa, and Dandapani (2020) compared ICOs and IPOs, noting that reputable underwriters and certification mechanisms play critical roles in reducing perceived risk and underpricing. Their analysis revealed that reputable financial intermediaries can moderate investor uncertainty, thereby improving IPO subscription rates. Similarly, Bolzani (2020) emphasized the importance of an enabling entrepreneurial ecosystem in facilitating capital market participation for underrepresented groups, highlighting that institutional intermediaries such as underwriters and auditors shape investor trust and market outcomes. This institutional credibility directly affects the pricing dynamics and the long-term survival of newly listed firms.

Issue size and firm scale also serve as critical market-specific determinants. Sierra (2020) explained how the choice of innovation funding depends on firm strategy and the structure of the financial system. Larger issue sizes tend to attract institutional investors, improving aftermarket liquidity and reducing volatility. Mehta (2020) illustrated this through a case study of a private firm's working capital financing decision, emphasizing that larger financial commitments require strategic funding alignment prior to IPO issuance. Similarly, Hånell, Rovira Nordman, and Mattsson (2021) observed that SMEs with greater experiential knowledge and strategic wisdom during internationalization are more capable of structuring efficient IPOs, as their experiential learning reduces errors in issue pricing and allocation.

Beyond these financial and structural determinants, social and behavioral dimensions also influence IPO performance. Yang, Wang, and Chen (2021) investigated the role of corporate governance and earnings guidance, finding that transparent communication reduces investor uncertainty and enhances firm innovation. This transparency is mirrored in IPO contexts, where consistent disclosure attracts long-term investors. Lee et al. (2021) proposed that social capital within organizations fosters ambidexterity---balancing exploration and exploitation which is essential for post-IPO adaptability. Similarly, Żukowska, Martyniuk, and Zajkowski (2021) introduced the concept of "survivability capital" in family firms during crises, demonstrating that resilient firms sustain

performance despite market shocks. Such findings reinforce the notion that intangible assets and relational capital significantly contribute to IPO performance and longevity.

The comparative dimension of firm performance post-IPO is also influenced by global market variations. Cannavale, Zohoorian Nadali, and Esempio (2020) studied firms in sanctioned economies and discovered that CEO characteristics and entrepreneurial orientation directly affect financial outcomes. Firms led by visionary leaders exhibit superior adaptability to market fluctuations, leading to better long-term returns. Kosmidou (2020) conducted a meta-analysis revealing that generational involvement in family firms impacts performance consistency, suggesting that promoter background and governance continuity are integral to IPO sustainability. Jiang et al. (2020) further stressed the need for sustainable sourcing frameworks, highlighting that firms aligning with global sustainability norms gain greater investor trust, an increasingly vital determinant of IPO valuation and reputation.

In the broader context, the evolution of intellectual and social capital has reshaped how IPO determinants are perceived. Lin and Edvinsson (2021) reflected on two decades of intellectual capital research, advocating that intangible assets like human expertise and organizational culture should be integrated into IPO evaluation models. These insights connect with Bornemann et al. (2021), who suggested that integrating knowledge management into financial strategy enhances post-IPO value creation. Clark and Covin (2021) reinforced this view from an entrepreneurial orientation perspective, stating that ventures with international outlooks and innovative cultures exhibit greater adaptability, positively influencing both short-term underpricing mitigation and long-term performance.

Ultimately, firm-specific, market-specific, and governance-based determinants jointly shape IPO success. While firm-level attributes such as ownership concentration, promoter holding, and innovation capability strengthen investor trust, market-level factors like underwriter reputation and issue size contribute to liquidity and valuation accuracy. The integration of intellectual capital and governance transparency serves as a moderating mechanism that mitigates underpricing and enhances long-term sustainability. These insights collectively

suggest that IPO performance is not solely determined by market timing but by the strategic alignment between firm capabilities, institutional quality, and investor confidence. As emerging markets such as India deepen their SME capital market structures, understanding these multidimensional determinants becomes essential for achieving balanced, transparent, and sustainable IPO ecosystems (Wang & Wang, 2021).

2.6 Key Variables Identified from Literature on SME Financing

• Age of the Firm :

Age of the firm refers to the number of years a company has been in operation prior to its Initial Public Offering (IPO). In financial markets, firm age is often considered an indicator of organizational maturity, operational stability, and accumulated business experience. Older firms typically possess established customer bases, stronger financial records, and greater credibility in the market, which may positively influence investor confidence during IPO offerings. Studies suggest that firms with longer operational histories are perceived as less risky compared to newly established firms. Santhosh (2023) found that firm age plays a significant role in influencing SME survival and growth performance, particularly in internationalized firms. Similarly, Semenov and Randrianasolo (2023) emphasized that firm maturity influences financial performance and strategic decision-making. In the context of IPO performance, Singh and Rastogi (2022) argued that older firms are more likely to attract investor interest due to their established reputation and operational track record.

• Goodwill of the Company :

Goodwill represents the intangible value associated with a company\'s reputation, brand image, customer loyalty, and overall credibility in the market. It reflects the perceived trustworthiness and competitive strength of the firm beyond its tangible assets. In capital markets, companies with strong goodwill often experience higher investor confidence and improved valuation during IPO offerings. Investors tend to associate strong brand reputation with long-term sustainability and lower risk. Sierra (2020) highlighted that intangible assets such as goodwill and brand equity significantly influence firm valuation and investment decisions. Similarly, Singh and Pillai (2022) emphasized that

corporate governance and reputation play a crucial role in building investor trust in SMEs. Schifilliti and La Rocca (2024) also found that reputation and governance structures contribute to improved performance and investor confidence among innovative SMEs.

- **Market Volatility :**

  Market volatility refers to the degree of variation or fluctuation in stock prices within a financial market over a specific period. High market volatility indicates greater uncertainty and risk, which may significantly affect investor sentiment and investment decisions. During periods of high volatility, investors may become cautious, resulting in lower demand for IPOs. Conversely, stable market conditions generally encourage investor participation in public offerings. Sethi et al. (2020) demonstrated that investor discussions and market signals significantly influence stock price fluctuations in emerging markets. Similarly, Sharma (2022) emphasized that technological advancements and digital trading environments contribute to increased market volatility. Risberg et al. (2023) further highlighted that dynamic market conditions and economic uncertainties play a crucial role in shaping firm performance and investment outcomes.

- **Price--Earnings Ratio :**

  The Price--Earnings (P/E) ratio is one of the most widely used financial valuation indicators in equity markets. It represents the relationship between a company\'s market price per share and its earnings per share (EPS). The P/E ratio helps investors assess whether a stock is overvalued or undervalued relative to its earnings potential. A higher P/E ratio may indicate strong growth expectations, while a lower ratio may reflect undervaluation or limited growth prospects. Sierra (2020) highlighted the importance of financial indicators such as earnings-based valuation metrics in investment decision-making. Similarly, Singh and Rastogi (2022) found that financial performance indicators play a significant role in determining investor confidence and firm valuation in SME markets.

- **First Day Closing Price :**

  The first day closing price represents the final trading price of a company\'s shares at the end of the first day of trading following an IPO listing. This price reflects the immediate market reaction to the IPO and provides insight into investor demand and market sentiment. A significant difference between the

issue price and the first day closing price may indicate the presence of underpricing or strong investor demand. A., N., D., and K. (2022) emphasized that initial listing behavior is strongly influenced by investor expectations and market demand. Similarly, Chorruk and Worthington (2023) observed that first-day price performance is a key indicator of short-term IPO success, particularly in SME markets.

- **Promoter's Holding :**

  Promoter holding refers to the proportion of shares retained by the promoters or founders of a company after the IPO. Higher promoter ownership often signals confidence in the firm\'s future prospects and aligns the interests of promoters with those of investors. This can reduce information asymmetry and improve investor trust. Vismara (2016) examined the relationship between equity retention and IPO performance and found that higher promoter shareholding positively influences investor confidence. Similarly, Singh and Rastogi (2022) reported that promoter ownership plays a significant role in determining firm value and governance effectiveness in SMEs.

- **Underwriter Reputation :**

  Underwriter reputation refers to the credibility, experience, and track record of the financial institution responsible for managing the IPO process. Reputable underwriters are often associated with higher quality offerings because they conduct thorough due diligence and provide reliable market signaling to investors. Amini and Bouri (2020) found that underwriter reputation significantly influences IPO pricing and underpricing behavior in SME markets. Similarly, Chen and Wang (2016) demonstrated that reputable underwriters improve investor confidence and enhance IPO performance through better pricing strategies and market credibility.

- **Institutional Holding :**

  Institutional holding refers to the proportion of company shares owned by institutional investors such as banks, mutual funds, insurance companies, and other financial institutions. Institutional investors typically conduct detailed financial analysis before investing, and their participation is often viewed as a positive signal regarding a firm\'s financial strength. Tripathi and Kumar (2021) emphasized that institutional participation plays an important role in

determining IPO demand and investor confidence. Singh and Rastogi (2022) also found that institutional ownership contributes to improved governance practices and firm performance.

- **Listing Day Price:**

  Listing day price refers to the opening trading price of a company\'s shares when they first become available for trading in the stock market. It reflects the immediate demand and supply dynamics of the IPO shares in the market. The listing price often differs from the issue price depending on investor interest and market conditions. Patil and Nevagi (2022) observed that listing day price movements are strongly influenced by investor sentiment and speculative trading behavior. Biswas and Joshi (2023) further highlighted that listing price behavior provides valuable insights into short-term IPO performance.

- **Issue Size:**

  Issue size represents the total amount of capital raised by a company through its IPO offering. It is usually measured by multiplying the number of shares issued with the issue price. Larger issue sizes often attract greater institutional participation and improve stock liquidity in the secondary market. Amini and Bouri (2020) emphasized that issue size plays an important role in determining IPO demand and investor participation. Similarly, Kumar and Singh (2021) found that larger IPO issues tend to receive stronger market attention and improved post-listing liquidity.

Table 2.1: Variables Identified from Literature on SME IPO Performance

Variable	Definition/ Meaning	Key Studies Supporting the Variable	Theoretical Foundation	Citation
Age of the Firm	Age of the firm refers to the number of years the company has been operating before going public. Older firms generally have more operational stability, established business networks, and higher investor confidence compared to younger firms.	Santhosh (2023); Semenov & Randrianasolo (2023); Singh & Rastogi (2022)	Ex-ante uncertainty hypothesis	Ghosh, S., Maji, A., Vardhan, N. H., & Naskar, S. K. (2024). Experimenting with multi-modal information to predict success of Indian IPOs

Variable	Definition/ Meaning	Key Studies Supporting the Variable	Theoretical Foundation	Citation
Goodwill of the Company	Goodwill represents the reputation, brand value, and intangible assets of a firm that enhance investor trust and influence company valuation during IPO offerings. Companies with stronger goodwill often attract greater investor participation.	Sierra (2020); Singh & Pillai (2022); Schifilliti & La Rocca (2024)	Reputational capital/ signaling substitute	Arora & Singh (2025), Business Process Management Journal links firm-level reputational and governance capital to reduced underpricing
Market Volatility	Market volatility refers to fluctuations in stock prices and market indices during a specific period. Higher volatility indicates greater uncertainty in the market and can significantly influence investor sentiment and IPO performance.	Sethi et al. (2020); Sharma (2022); Risberg et al. (2023)	Hot-and-cold issue market / sentiment theory	Ghosh, S., Maji, A., Vardhan, N. H., & Naskar, S. K. (2024). Experimenting with multi-modal information to predict success of Indian IPOs
Price–Earnings Ratio (P/E Ratio)	The Price–Earnings Ratio measures the relationship between a company's market price per share and its earnings per share. It is commonly used by investors to evaluate whether a stock is overvalued or undervalued.	Sierra (2020); Singh & Rastogi (2022)	Overvaluation hypothesis	Napitupulu, D., & Sibarani, M. (2024). The Influence of Price Earnings Ratio, Price to Book Value, and ROE on Stock Returns in IPO Companies, 2022–2023

Variable	Definition/ Meaning	Key Studies Supporting the Variable	Theoretical Foundation	Citation
First Day Closing Price	First day closing price refers to the final trading price of a company's share at the end of the first trading day after listing. It reflects the immediate market reaction to the IPO.	A., N., D., & K. (2022); Chorruk & Worthington (2023)	Underpricing signaling equilibrium	Aneesha, Athira & Lukose (2025) decomposes first-day/initial return into underwriter-signal and retail-demand components
Promoter's Holding	Promoter's holding represents the percentage of shares retained by the promoters after the IPO. Higher promoter ownership often signals confidence in the firm's future performance and reduces information asymmetry for investors.	Vismara (2016); Singh & Rastogi (2022)	Ownership retention signaling theory	Arora, N., & Singh, B. (2025). Ownership concentration and SME IPO underpricing in India moderating impact of board monitoring. Business Process Management Journal.
Underwriter Reputation	Underwriter reputation refers to the credibility, experience, and market standing of the financial institution responsible for managing the IPO process. Reputable underwriters increase investor confidence and improve IPO pricing efficiency.	Chen & Wang (2016); Amini & Bouri (2020)	Certification hypothesis	Arora, N., & Singh, B. (2024). Do Prestigious Underwriters Shape the Performance of SME IPOs in India? Global Business Review.

Variable	Definition/ Meaning	Key Studies Supporting the Variable	Theoretical Foundation	Citation
Institutional Holding	Institutional holding refers to the percentage of shares owned by institutional investors such as mutual funds, banks, and financial institutions. High institutional participation often indicates strong investor confidence.	Tripathi & Kumar (2021); Singh & Rastogi (2022)	Winner's curse / informed investor participation	Aneesha, Athira & Lukose (2025) shows institutional/retail demand signal does not reliably persist into long-run performance.
Listing Day Price	Listing day price refers to the opening price at which the stock starts trading in the market on the first day of listing. It reflects investor demand and the effectiveness of IPO pricing.	Patil & Nevagi (2022); Biswas & Joshi (2023)	Informational cascade theory	Oraon, A. (2025). Evaluating the influence of Grey Market Premium on IPO subscription and listing performance. Indian Journal of Research in Capital Markets
Issue Size	Issue size represents the total capital raised by the company through the IPO. Larger issue sizes may attract more institutional investors.	Amini & Bouri (2020); Kumar & Singh (2021)	Ex-ante uncertainty + liquidity theory	Garg, R., & Shukla, A. (2024). Sovereign wealth funds as anchor investors in IPOs: Evidence from India. Pacific-Basin Finance Journal, 86 (issue size interacts with anchor allocation and post-listing liquidity)

• **Dependent Variables :**

• **Buy and Hold Abnormal Return (BHAR) :**

Buy and Hold Abnormal Return (BHAR) is widely used to measure the long-term performance of IPO stocks. It represents the difference between the return earned by holding the stock for a specific period and the expected return based on a benchmark market index. Chorruk and Worthington (2023) emphasized that BHAR provides valuable insights into the long-term value creation potential of IPO firms. Similarly, Kumar and Singh (2021) used BHAR to evaluate post-issue performance of SME IPOs

• **Short Run Market Adjusted Return :**

Short run market adjusted return measures the short-term performance of an IPO after adjusting for overall market performance. This metric helps determine whether an IPO performs better or worse than the broader market immediately after listing. Tripathi and Kumar (2021) highlighted the importance of short-term market-adjusted returns in evaluating IPO success in emerging markets.

• **Long Run Performance of IPO :**

Long-run IPO performance refers to the stock performance of companies over an extended period after listing. It helps evaluate whether IPO firms sustain growth and generate long-term shareholder value. Arora and Singh (2021) reported that many SME IPOs experience declining performance over time due to liquidity constraints and market volatility.

• **Cumulative Abnormal Return (CAR) :**

Cumulative Abnormal Return (CAR) measures the aggregated abnormal returns over a specific time window surrounding an event such as an IPO listing. CAR is frequently used in event study methodologies to assess how markets react to major financial events. Amini and Bouri (2020) utilized CAR to evaluate abnormal returns associated with SME IPO offerings.

• **Raw Return :**

Raw return represents the simple percentage change in the stock price over a given period without adjusting for market movements. It provides a basic measure of investor gain or loss from holding the stock. Biswas and Joshi (2023) used raw return as an indicator of IPO performance in their evaluation of IPO ranking frameworks.

Table 2.2: Dependent Variables

Variable	Definition / Meaning	Key Studies Supporting the Variable	Theoretical Foundation	Citation
Buy and Hold Abnormal Return (BHAR)	BHAR measures the long-term performance of IPO stocks by comparing the actual return earned by holding the stock with the expected market return over the same period.	Chorruk & Worthington (2023); Kumar & Singh (2021)	Divergence-of-opinion / overreaction hypothesis	Dhamija and Arora (2017) report a mean BHAR of 57.33% over 36 months for 377 Indian IPOs**,** with only 10% of IPOs outperforming the benchmark, indicating significant long-run underperformance consistent with investor overreaction.
Short Run Market Adjusted Return	This refers to the return generated by an IPO in the short run after adjusting for overall market performance. It helps evaluate IPO performance relative to market trends.	Tripathi & Kumar (2021); Patil & Nevagi (2022)	Signaling/asymmetric information underpricing theory	Arora, N., & Singh, B. (2025). Ownership concentration and SME IPO underpricing in India. Business Process Management Journal, 31(2), 578–604. (390 BSE SME/NSE Emerge IPOs)
Long Run Performance of IPO	Long-run IPO performance measures stock performance over an extended period after listing, often evaluated through abnormal returns compared to benchmark indices.	Arora & Singh (2021); Chorruk & Worthington (2023)	Windows-of-opportunity hypothesis; certification breakdown over time	Arora, N., & Singh, B. (2024). Do Prestigious Underwriters Shape the Performance of SME IPOs in India? Global Business Review, 25(3), 632–655

Variable	Definition / Meaning	Key Studies Supporting the Variable	Theoretical Foundation	Citation
Cumulative Abnormal Return (CAR)	CAR represents the cumulative sum of abnormal returns over a specified event window surrounding the IPO listing period.	Amini & Bouri (2020); Kumar & Singh (2021)	Event-study methodology; informational cascades	Ghosh, S., Maji, A., Vardhan, N. H., & Naskar, S. K. (2024). Experimenting with multi-modal information to predict success of Indian IPOs
Raw Return	Raw return is the simple percentage change in the stock price over a given period without adjusting for market performance.	Biswas & Joshi (2023); Patil & Nevagi (2022)	Underpricing equilibrium theory	Aneesha, M.A., Athira, A., & Lukose, P.J. (2025). Underwriter Reputation, Retail Demand, and Performance of Newly Public SMEs. Journal of Emerging Market Finance. (610 SME IPOs, 2012–2021; links initial return to underwriter/retail demand signals)

2.6.1 SME IPO Performance on BSE SME and NSE Emerge

The introduction of SME-specific platforms --- BSE SME and NSE Emerge --- marked a turning point in India's equity landscape. Empirical and conceptual works have examined how these platforms supported capital formation and investor diversification. Corsi and Prencipe (2017) argued that improving external financing in high-tech SMEs required tailored regulatory frameworks, resonating with the Indian model that simplified listing procedures for smaller firms. Similarly, Palacín-Sánchez, Bravo, and Reguera-Alvarado (2019) found that the characteristics of boards in growing SMEs significantly influenced their public offering outcomes, suggesting the importance of managerial expertise in IPO success.

Mousa, Kim, and Rutherford (2016) explored IPO firms' acquisition activity, indicating that leadership dynamics and top management decisions post-listing impact firm value creation. In the Indian context, this reflects how SME IPOs often rely on founder-driven strategies rather than institutional mechanisms. Adomako et al. (2016) found that entrepreneurial optimism and persistence were critical for firm sustainability, further underlining the behavioral aspects influencing post-listing performance.

Globally, Hashemi Joo, Nishikawa, and Dandapani (2020) conceptualized Initial Coin Offerings (ICOs) as a modern evolution of IPOs --- a perspective valuable for understanding India's transition toward digital financing channels. While ICOs represent a futuristic investment model, their fundamental principles mirror SME IPOs in democratizing access to capital. In India, similar democratization occurred when small enterprises began tapping equity markets via BSE SME and NSE Emerge after 2013, with increasing participation from retail investors and regional entrepreneurs.

Fu and Wang (2019) analyzed merger momentum in Chinese listed companies, identifying external market factors as determinants of growth patterns post-IPO. Comparable trends can be observed in Indian SME IPOs, where firms use post-listing capital for expansion, technology upgrades, and acquisitions. Additionally, Boso, Debrah, and Amankwah-Amoah (2018) observed that emerging market firms' international marketing strategies hinge on their ability to leverage financial markets --- reinforcing the role of IPOs as gateways for global competitiveness.

From a strategic innovation perspective, Lin, Chen, and Lin (2017) demonstrated that strategic and operational control mechanisms significantly influence new venture performance, which parallels the Indian SME market where listed firms must balance entrepreneurial agility with compliance obligations. Similarly, Kosmidou (2020) emphasized the relationship between generational involvement in family firms and performance outcomes, a finding particularly relevant to India, where many SME issuers are family-owned entities.

2.6.2 Investor Perception, Listing Norms, and Regulatory Effectiveness

Investor sentiment and perception play pivotal roles in shaping SME IPO success. Sethi et al. (2020) applied a machine learning-based approach to analyze Indian stock market message board discussions, revealing that investor sentiment often influences short-term price movements. This behavioral dimension underscores the importance of transparency, corporate communication, and information asymmetry reduction in SME IPO markets. In line with this, Low (2019) examined legitimacy and reform policy in private higher education, drawing parallels to how SMEs strive for legitimacy in financial markets through disclosure and ethical governance.

Regulatory effectiveness has also been a central theme in recent research. The work of Jiang et al. (2020) proposed a conceptual framework for achieving sustainability in global sourcing --- applicable to SME IPOs where sustainability and governance are essential for investor confidence. Similarly, Berezinets, Garanina, and Ilina (2016) discussed intellectual capital at the board level, emphasizing knowledge diversity and governance capacity, both of which are directly linked to regulatory compliance and investor trust in SME markets.

Al Balushi, Locke, and Boulanouar (2019) explored financial decision-making determinants in Islamic finance, reflecting on how ethical and value-based investment systems can attract specific investor segments --- a lesson India can draw for improving SME market inclusivity. The role of corporate strategy and financial system alignment was further explored by Sierra (2020), who found that innovation funding choices are heavily influenced by institutional and regulatory frameworks, reinforcing the idea that SEBI's supportive policies post-2013 catalyzed SME market growth.

Furthermore, Wiengarten, Lam, and Fan (2020) discussed how expanding online distribution channels creates value, echoing the digital transformation in Indian equity markets through online trading and dematerialized IPO subscriptions. This digitization has reduced participation barriers, enabling small investors to participate actively in SME IPOs. Klarin and Ray (2019) contributed to understanding political connections and strategic choices of emerging market firms, suggesting that government-backed reforms such as "Make in India" and

"Startup India" have indirectly supported SME market expansion.

From the perspective of corporate ethics, Mascarenhas (2019) emphasized the multidimensional responsibilities of firms --- legal, ethical, moral, and spiritual --- in turbulent markets, a framework that aligns with SEBI's increasing focus on ethical disclosure and accountability norms. Hooi (2019) asserted that organizational learning capability is a critical determinant of firm performance, implying that SMEs that adapt to regulatory and market dynamics tend to sustain investor confidence better.

Empirical studies such as that by Le (2019) examined working capital management and its influence on firm valuation and profitability, directly connecting to how SME IPO proceeds are utilized post-listing in India. Similarly, Ferri et al. (2019) and Ferri et al. (2019) discussed patenting behavior and innovation as key determinants of SME growth --- relevant for India's knowledge-intensive SME sectors listed on NSE Emerge.

2.6.3 Relevance to the Present Study

The collective findings from these global and Indian studies reveal three crucial themes directly relevant to this thesis on SME IPO performance in India and Gujarat.\ First, the literature highlights that the period post-2013 has been transformative for SMEs, with increasing formalization, financial inclusion, and market participation supported by regulatory innovation (Mohan, 2016; Srivastava, 2016; Corsi & Prencipe, 2017).\ Second, empirical insights into SME IPO performance demonstrate that success is influenced not just by firm fundamentals but also by governance structure, management quality, and market perception (Palacín-Sánchez et al., 2019; Lin et al., 2017; Mousa et al., 2016).\ Third, investor perception and regulatory oversight play defining roles in sustaining market confidence and post-listing performance, where transparency, ethical practices, and adaptive learning are key (Sethi et al., 2020; Jiang et al., 2020; Mascarenhas, 2019).

For the Indian context --- and Gujarat in particular --- these studies provide a foundation for assessing how SME IPOs have evolved as viable financing instruments. Gujarat's strong industrial base and entrepreneurial culture make it a natural leader in SME listings, aligning with national policy objectives to

strengthen regional equity markets. Thus, this literature collectively supports the need for a comprehensive empirical evaluation of SME IPO performance, post-listing behavior, and investor sentiment under evolving market conditions.

Table 2.3: Literature Review and Key Finding Summary

Author(s) & Objectives Key Findings Relevance to Year Current Study

Author (s) & Year	Objectives	Key Findings	Relevance to Current Study
Hashemi Joo, Nishikawa & Dandapani (2020)	To explore how ICOs represent an evolution of traditional IPOs in capital markets.	ICOs democratize access to capital and mirror IPO principles through technology-driven transparency.	Provides perspective on how SME IPOs in India can adopt digital and transparent mechanisms to attract investors.
Mehta (2020)	To analyze working capital financing decisions in Indian SMEs.	Efficient working capital management directly affects SME growth and sustainability.	Highlights financial efficiency as a post-listing determinant of SME IPO performance.
Sethi et al. (2020)	To assess the impact of online investor discussions on stock price movements using machine learning.	Investor sentiment influences short-run stock returns significantly.	Relevant for analyzing short-run market-adjusted returns of SME IPOs in India.
Jiang et al. (2020)	To develop a sustainability framework in global sourcing and financial systems.	Governance and long-term orientation are essential for sustainable financial practices.	Emphasizes the importance of governance and sustainable finance for SME listings.

Author (s) & Year	Objectives	Key Findings	Relevance to Current Study
Kosmidou (2020)	To examine generational involvement in family firms and performance outcomes.	Family involvement can both enhance and limit firm innovation and performance.	Many Indian SME issuers are family-run; generational factors affect listing success.
Sierra (2020)	To study how firm strategy and financial systems affect innovation funding.	Institutional and regulatory frameworks shape innovation financing decisions.	Reinforces SEBI's role in enabling innovation-driven SMEs to access IPO funding.
Wiengarten, Lam & Fan (2020)	To evaluate value creation via online distribution channels.	Digital platforms expand reach and improve financial inclusion.	Reflects how NSE Emerge and BSE SME's online platforms broaden SME investor access.
Al Balushi, Locke & Boulanouar (2019)	To identify determinants influencing adoption of Islamic finance in Oman.	Ethical and value-based finance attracts investor trust and participation.	Supports ethical finance approaches that enhance investor confidence in SME IPOs.
Palacín-Sánchez, Bravo & Reguera-Alvarado (2019)	To analyze board characteristics in growing SMEs going public.	Experienced, diverse boards enhance IPO success and firm valuation.	Reinforces the role of governance and management quality in SME IPO performance.
Le (2019)	To explore working capital management's impact on firm profitability and valuation.	Efficient working capital management boosts profitability and firm value.	Provides insight into post-IPO capital utilization and financial management.

Author (s) & Year	Objectives	Key Findings	Relevance to Current Study
Hooi (2019)	To study how organizational learning affects firm performance.	Learning capabilities drive firm adaptability and long-term success.	Highlights the need for continuous improvement in SME post-listing management.
Klarin & Ray (2019)	To assess how political connections influence strategic business decisions.	Policy alignment and government support enhance SME internationalization.	Relates to India's policy-driven SME IPO ecosystem under "Make in India."
Ferri, Fiorentino, Parmentola & Sapio (2019)	To analyze patenting behavior among academic spin-offs.	Innovation intensity and patenting influence firm valuation.	Suggests innovative SMEs perform better post-IPO due to intellectual assets.
Fu & Wang (2019)	To identify drivers of merger momentum in listed Chinese firms.	Market conditions and firm fundamentals drive acquisition behavior.	Parallels Indian SME IPO firms' use of proceeds for expansion and M&A.
Boso, Debrah & Amankwah-Amoah (2018)	To investigate marketing strategies of emerging market firms.	Internationalization enhances firm competitiveness and brand equity.	Suggests SME IPOs can help Indian firms expand internationally.
Corsi & Prencipe (2017)	To improve external financing access for high-tech SMEs.	Simplified frameworks and specialized markets aid capital acquisition.	Directly supports the rationale for BSE SME and NSE Emerge platforms.

Author (s) & Year	Objectives	Key Findings	Relevance to Current Study
Lin, Chen & Lin (2017)	To examine strategic and operational control's effect on new venture performance.	Balanced control mechanisms enhance performance and innovation.	Relevant to SME IPOs balancing compliance with entrepreneurial agility.
Mousa, Kim & Rutherford (2016)	To assess how top management teams affect IPO firms' acquisitions.	Leadership decisions significantly influence post-IPO performance.	Highlights management behavior as a key determinant of SME success.
Chen & Wang (2016)	To study effects of underwriter reputation on IPO underwriting fees.	Strong underwriters command premium fees due to credibility.	Reflects the Indian context where reputed merchant bankers drive investor trust.
Srivastava (2016)	To explore crowdfunding as an alternative MSME financing model in India.	Crowdfunding democratizes finance and complements formal capital markets.	Aligns with SME IPOs' goal of inclusive finance for small enterprises.
Zhou, Chen & Cheng (2016)	To evaluate internal controls across firm life cycles.	Effective internal controls improve firm performance and stability.	Demonstrates how governance practices sustain SME performance post-listing.
Mohan (2016)	To analyze IndusInd Bank's turnaround and strategic renewal.	Innovation and adaptability enhance competitiveness.	Illustrates how financial innovation supports SME growth via capital access.

2.7 Studies on SME IPOs: International Context

The behavior of SME IPOs across developed and developing economies varies significantly, shaped by institutional maturity, governance quality, investor sophistication, and capital market depth. In developed economies such as the UK, US, and parts of Europe, the SME listing process tends to be driven by regulatory transparency, investor protection, and innovation-oriented growth strategies. In contrast, developing economies like China, Brazil, and several Southeast Asian countries often experience challenges such as limited investor confidence, less stringent governance structures, and dependency on policy-driven capital flows. Studies from multiple contexts---spanning governance, financial systems, and entrepreneurial strategies---provide valuable insights into how SME IPO markets evolve differently across regions.

In developed economies, a strong emphasis on governance and corporate transparency defines SME performance. Afrifa and Tauringana (2015) analyzed UK-listed SMEs and found that robust corporate governance mechanisms enhance firm performance by attracting institutional investors and reducing information asymmetry. Similarly, Reutzel and Belsito (2015) demonstrated that the inclusion of female directors on US boards reduces IPO underpricing, reflecting a maturing investment environment that values diversity and ethical governance. O'Shannassy (2015) emphasized the ethical foundations of governance systems, arguing that consistent ethical frameworks strengthen investor trust---an essential condition for efficient SME capital markets. Such findings collectively indicate that governance maturity in developed markets contributes to more stable IPO outcomes and post-listing performance.

Comparatively, developing economies exhibit more volatile SME IPO behavior due to regulatory inconsistencies, evolving investor behavior, and market immaturity. Lo (2016) and Scheela, Nalamlieng, and Rueangkirianya (2016) analyzed angel financing in China and Thailand, highlighting that while these economies are witnessing rapid growth in early-stage financing, they still face structural barriers such as limited exit routes and information inefficiencies. These challenges influence IPO valuation and post-listing performance. Similarly, Liu and Wang (2015) observed that underwriter reputation in Chinese IPOs plays a disproportionately large role in determining investor confidence, as

many emerging markets rely heavily on intermediaries to bridge trust gaps. Wu, Gao, Chen, and Li (2016) further examined reputation loss in Chinese firms, finding that transparency failures or restatements have severe market penalties, signaling the importance of credible financial disclosure for sustainable SME performance.

In Europe, Bialek-Jaworska and Gabryelczyk (2016) explored biotech spin-offs and found that business model innovation and internationalization strategies are central to SMEs' growth trajectories. Their findings suggest that SMEs seeking global expansion often rely on intellectual property and research-based differentiation to sustain post-IPO growth. Bresciani, Giacosa, Broccardo, and Culasso (2016), studying family-run wine firms in France and Italy, concluded that family ownership creates stability but can limit rapid adaptation to changing financial market dynamics. Chang and Noguera (2016) supported this by showing how family-controlled REITs in the US rely on dual governance mechanisms---balancing control with transparency---to maintain investor confidence. These cases illustrate that while developed economies have mature capital structures, firm-level cultural and ownership characteristics still shape IPO behavior and investor responses.

In contrast, developing nations such as China, India, and Brazil showcase a transition phase in SME capital markets. Zhou, Chen, and Cheng (2016) highlighted how internal control systems evolve across a firm's life cycle, affecting performance sustainability in Chinese SMEs. McMillan and Evans (2015) analyzed stock return volatility in China, emphasizing that market fluctuations often stem from investor sentiment rather than fundamental performance---indicating an immature market environment. Similar patterns are observable in India, where Srivastava (2016) linked the rise of crowdfunding to the democratization of finance for MSMEs, paralleling the objectives of SME IPO platforms like NSE Emerge and BSE SME. These mechanisms collectively work toward bridging the financing gap for small enterprises, which historically struggled to access traditional capital channels.

From a comparative perspective, studies in Southeast Asia, Australia, and the UK reveal that policy frameworks and investor education are crucial to market success. Mooney and Mactaggart (2016) noted that in Australia, angel

investment networks and government incentives foster early-stage entrepreneurial growth, creating a robust pipeline for potential IPOs. Meanwhile, Slack and Munz (2016) found that intellectual capital reporting and leadership transparency drive strategic change, which enhances investor valuation and reduces underpricing risks. These findings contrast sharply with economies like Brazil and India, where such reporting practices are still evolving, and where investor protection mechanisms are in a formative stage.

Empirical research also highlights the strategic and managerial dimensions of SME IPOs. Colombelli (2015) and Mousa, Kim, and Rutherford (2016) found that top management team characteristics---such as experience, diversity, and strategic vision---are critical determinants of firm growth and acquisition behavior post-IPO. These insights hold particular relevance for developing markets like India, where SME promoters often play dominant roles in governance and strategy. Ibekwe (2015), analyzing firms in Mozambique, found that many SMEs prefer to remain private due to high compliance costs and limited perceived benefits of public listing, a sentiment occasionally echoed by small Indian firms hesitant to approach IPO markets. On the other hand, Wonglimpiyarat (2015) noted that policy-driven innovations in SME financing across Asia could enhance capital access, provided regulatory frameworks align with entrepreneurial needs.

Case studies from countries such as China and Thailand (Lo, 2016; Scheela et al., 2016) illustrate that government-led initiatives and angel networks act as catalysts for SME IPO readiness. However, the long-term sustainability of these platforms depends on post-listing performance and governance adaptability. Mohan (2016), analyzing IndusInd Bank's turnaround in India, demonstrated how innovation and strategic restructuring could restore market credibility and drive long-term shareholder value---a lesson applicable to listed SMEs striving for sustained growth. Similarly, Caridi, Perego, and Tumino (2013) found that supply chain visibility and operational efficiency play critical roles in maintaining investor confidence post-IPO, particularly in manufacturing and retail SMEs.

When comparing Indian SME platforms with global counterparts, several unique characteristics emerge. The BSE SME and NSE Emerge platforms focus on

reducing listing costs, easing compliance, and promoting accessibility for small enterprises, aligning more with emerging market models like China's ChiNext or Brazil's Bovespa Mais rather than with highly regulated Western markets such as London's AIM. Studies by Chen and Wang (2016) and Liu and Wang (2015) underline the significance of intermediary reputation in markets where investor awareness is still developing---a factor also evident in Indian SME listings, where merchant bankers play a central role. Moreover, Srivastava (2016) emphasized the growing intersection between crowdfunding and formal capital markets, reflecting India's blended approach to SME financing.

Overall, the comparison across developed and developing economies reveals that while developed markets emphasize governance and transparency as central to SME IPO success, developing markets prioritize accessibility, policy support, and investor confidence. The Indian SME IPO ecosystem represents a hybrid model---borrowing global best practices while addressing local structural challenges. Lessons from the UK, US, China, and Southeast Asia collectively highlight that sustainable SME IPO markets depend on balancing regulation, innovation, and inclusion. Thus, the Indian SME IPO experience stands at the confluence of global evolution and domestic adaptation---an emerging model that integrates affordability, transparency, and inclusive financial growth for small enterprises.

2.8 Regional Focus: Gujarat and SME Ecosystem

The industrial landscape of Gujarat has long been recognized as one of the most vibrant and entrepreneurially active regions in India, often described as the country's "growth engine." The state's rich industrial legacy, robust infrastructure, and pro-business policies have cultivated an environment conducive to entrepreneurial development and capital market participation. However, despite this dynamic ecosystem, scholarly research specifically focusing on the IPO behavior of Gujarat-based firms, particularly SMEs, remains limited. The literature on entrepreneurship, governance, and capital market development provides insights into related contexts, but regional perspectives that directly link Gujarat's industrial evolution with IPO participation are still sparse. A synthesis of prior research reveals a conceptual

framework for understanding how industrial dynamics, governance practices, and entrepreneurial behavior influence public offering decisions---insights that are critical to addressing the existing research gap in the Gujarat context.

Ethical governance and corporate behavior form a crucial foundation for sustainable entrepreneurial growth and capital market participation. O'Shannassy (2015) emphasized the importance of ethics in governance regimes, arguing that a robust ethical framework within corporations enhances investor confidence, transparency, and long-term stability. This principle holds particular relevance for Gujarat, where many enterprises---especially in traditional manufacturing sectors---are transitioning toward more formal governance structures to align with listing requirements. Ethical governance fosters credibility in IPO markets, reducing perceived risks among investors and encouraging greater participation from small enterprises. Similarly, Reutzel and Belsito (2015) found that board diversity, particularly the inclusion of female directors, mitigates IPO underpricing and enhances post-listing performance, underscoring the significance of inclusive leadership in promoting capital market maturity.

Entrepreneurial innovation and financing challenges have also been central to discussions on SME participation in IPOs. Wonglimpiyarat (2015) highlighted the difficulties SMEs face in accessing innovation finance and argued for government-supported financing mechanisms that encourage risk-taking and competitiveness. Gujarat's industrial base, characterized by clusters in textiles, chemicals, and engineering, exhibits similar financing constraints, where many SMEs rely on informal credit or local networks rather than formal capital markets. The study suggests that policy-driven initiatives---such as SME exchanges and credit guarantee schemes---can play a transformative role in promoting IPO participation. McQueen and Yin (2014) provided an interesting perspective by exploring the entrepreneurial behavior of digital microbusinesses with zero employees, demonstrating how technology and e-commerce create new opportunities for market entry and expansion. Their findings are relevant for Gujarat's emerging start-up ecosystem, particularly in sectors like fintech, logistics, and renewable energy, where digital entrepreneurship is reshaping traditional industrial dynamics.

The financing behavior of entrepreneurs in emerging economies also provides a

comparative lens for understanding Gujarat's context. Kong, Turvey, Xu, and Liu (2014) investigated borrower and lender attitudes in rural China, revealing that trust and relational financing significantly influence credit access. Such findings parallel the entrepreneurial landscape in Gujarat, where community-based trust and informal lending networks remain crucial, particularly for small industrial units. Caridi, Perego, and Tumino (2013) discussed supply chain visibility in the apparel industry, emphasizing that operational transparency strengthens competitiveness and investor confidence---an aspect highly relevant to Gujarat's textile sector. Similarly, Mayorga (2013) explored continuous disclosure practices in Australia, demonstrating that consistent information transparency enhances market credibility---an insight that resonates with the challenges faced by Indian SMEs in maintaining disclosure standards post-listing.

The role of technology and information systems in enhancing competitiveness has also been discussed extensively. Wang, Liu, Dai, and Lin (2013) found that IT applications add strategic value by improving cognitive decision-making and operational efficiency, enabling firms to respond more effectively to market demands. In Gujarat, where industrial modernization and automation are rapidly expanding, similar technological integration can facilitate IPO readiness by improving managerial efficiency and compliance. Jalal and Khaksari (2012) examined capital-raising mechanisms in China, finding that market liberalization and institutional reforms significantly increase entrepreneurial access to equity markets. This observation holds implications for Gujarat, where state and central government reforms---such as the introduction of SME exchanges and investor-friendly regulations---have been pivotal in encouraging small firms to explore public funding avenues.

Corporate governance and power dynamics among shareholders further shape IPO participation decisions. Luo and Jackson (2012) explored CEO compensation and shareholder power, revealing how internal balance affects corporate transparency and strategic direction. In Gujarat's family-dominated industrial landscape, similar dynamics often influence decision-making regarding public listings, as promoters weigh the benefits of capital access against potential dilution of control. Singh (2012) analyzed supply chain issues

in an Indian electrical manufacturing firm, showing how production efficiency and supply reliability affect overall business sustainability---factors that investors closely evaluate before subscribing to SME IPOs. Mac an Bhaird and Lucey (2011) developed a financial growth lifecycle model demonstrating that SMEs' funding needs evolve with their growth stages, transitioning from internal to external financing as they mature. This lifecycle perspective aligns with Gujarat's industrial evolution, where many firms are moving from unlisted, family-run entities to publicly listed companies seeking broader capital exposure.

Global case studies offer additional perspectives. Munir, Prasetyo, and Kurnia (2011) examined Garuda Indonesia's restructuring journey, highlighting strategic and operational reforms necessary for corporate transformation---lessons that are equally applicable to Gujarat-based enterprises preparing for IPOs. Nangia et al. (2011) discussed Vedanta's cross-continent acquisition of Cairn India, illustrating how strategic diversification enhances firm valuation and investor appeal. Such cases reinforce that expansion-oriented strategies, supported by robust governance, are critical for successful IPO outcomes. Su and Sun (2011) explored informal finance and trade credit in private firms, concluding that these alternative financing mechanisms significantly influence firm performance in developing economies. Gujarat's SMEs, many of which rely on trade credit, reflect similar patterns where informal systems fill gaps left by underdeveloped financial institutions.

The entrepreneurial spirit in regions such as Hong Kong and China offers additional parallels. Law and Hung (2009) analyzed entrepreneurship among Hong Kong accountants, showing how professional autonomy and skill specialization contribute to entrepreneurial success. This mirrors Gujarat's emphasis on skill-based industries, where technical expertise drives innovation and expansion. Zhang and Gu (2024) explored corporate social responsibility (CSR) ecosystems in China, finding that CSR integration strengthens stakeholder relations and market reputation---a strategy increasingly relevant to Gujarat's firms aiming to attract socially responsible investors. Murphy and Hill (2008) examined entrepreneurship research methodologies, emphasizing the importance of context-specific screening criteria---an argument supporting the

need for region-specific IPO studies in Gujarat. Shahrokhi (2008) reviewed global e-finance innovations, emphasizing digitalization as a driver of financial inclusion, which directly correlates with Gujarat's growing emphasis on fintech and online investment mechanisms.

Earlier studies have also highlighted governance and institutional challenges that SMEs face. Abor and Adjasi (2007) discussed the theoretical implications of corporate governance in SMEs, arguing that governance quality significantly impacts access to capital and overall firm performance. Rickards (2007) examined benchmarking in e-commerce SMEs, finding that strategic performance evaluation mechanisms improve competitiveness and investor readiness. Das, Lashkari, and Sengupta (2006) discussed reliability in manufacturing systems, emphasizing quality control as a determinant of industrial efficiency---a critical consideration in Gujarat's engineering clusters. Desouza and Awazu (2006) identified five peculiarities of knowledge management in SMEs, including resource scarcity and informality, both prevalent in Gujarat's industrial culture. Gleason, Madura, and Wiggenhorn (2006) explored the risks and performance of born-global firms, revealing that rapid internationalization entails unique financial challenges---insights that apply to Gujarat's export-oriented SMEs. Nellis (2007) and Goldberg and Nellis (2007) provided broader lessons on institutional reform and privatization, underscoring how state-led policies shape entrepreneurial ecosystems, an important dimension for Gujarat given its history of industrial policy support and infrastructure investment.

Culkin and Simmons (2018a, 2018b) emphasized how small firms act as engines of innovation and adaptability in times of economic transition, such as Brexit. Their analysis reinforces the notion that resilience and flexibility are critical for SMEs navigating uncertain financial environments---a lesson pertinent to Gujarat's SMEs adapting to post-COVID market conditions and global economic shifts. Arora and Singh (2020a, 2020b, 2020c) offered valuable India-specific insights into SME IPOs, analyzing underpricing, oversubscription, and long-run performance. They found that corporate governance mechanisms, investor sentiment, and regulatory support significantly affect IPO outcomes. Their studies provide a direct link to Gujarat's context, where SME IPO

participation has grown under the NSE Emerge and BSE SME platforms, yet regional research remains limited.

In conclusion, while global and national literature offers a strong foundation for understanding the interplay between governance, innovation, and entrepreneurship, the specific context of Gujarat's industrial ecosystem remains underexplored in IPO research. The state's unique blend of traditional industries and modern entrepreneurship presents fertile ground for examining how regional policies, ethical governance, and innovation finance interact to shape IPO participation. Bridging this gap requires focused empirical research that integrates Gujarat's industrial characteristics, entrepreneurial motivations, and investor behavior into the broader discourse on SME capital market development.

2.9. Research Gap Identification

The existing body of literature on small and medium enterprises (SMEs) and their financing behavior reflects a growing interest in understanding how capital markets, particularly initial public offerings (IPOs), serve as enablers of entrepreneurial growth and regional economic expansion. While much of the literature focuses on developed economies, emerging markets like India---especially states such as Gujarat---remain relatively underexplored in terms of post-listing SME IPO performance and the multidimensional factors influencing it. O'Shannassy (2015) highlights the importance of ethical governance regimes in promoting transparency and investor confidence, which are central to capital market participation. Similarly, Reutzel and Belsito (2015) explore governance through the lens of gender diversity and its influence on IPO underpricing, emphasizing that corporate structure and ethical oversight significantly affect investor perceptions. Wonglimpiyarat (2015) and McQueen and Yin (2014) further underscore that innovation, entrepreneurship, and access to capital markets are closely interlinked, particularly for SMEs striving to scale beyond domestic confines. These findings are highly relevant for Gujarat's growing SME ecosystem, which is characterized by entrepreneurial dynamism and export-oriented industrial clusters but limited formal financing access.

Several studies point to financing constraints and the importance of investor

attitudes in shaping SME development. Kong et al. (2014) analyze borrower and lender dynamics in China, concluding that perceptions of risk and trust deeply influence financial inclusion. Jalal and Khaksari (2012) and Jia (2012) similarly address capital-raising challenges in emerging economies, reflecting systemic barriers that parallel those faced by Gujarat-based SMEs. Luo and Jackson (2012) and Singh (2012) contribute insights into executive compensation and operational constraints in manufacturing contexts---issues directly relevant to many SMEs in Gujarat's industrial belts.

In the context of innovation and competitiveness, Caridi, Perego, and Tumino (2013) and Wang et al. (2013) demonstrate how visibility and technology integration strengthen supply chains and business value, respectively. Such operational efficiencies are often prerequisites for successful public listing, yet SMEs in Gujarat frequently struggle with data transparency and professional management, which may hinder investor confidence during IPO evaluations. From a governance and diversification perspective, Abor and Adjasi (2007) and O'Regan, Sims, and Ghobadian (2005) highlight the pivotal role of ownership structure and decision-making autonomy in SME success. Likewise, Gabrielsson, Sasi, and Darling (2004) show how financial strategy determines international competitiveness---a finding pertinent to Gujarat's globally linked sectors such as textiles, chemicals, and engineering.

The Indian context is notably enriched by the works of Arora and Singh (2020a, 2020b, 2020c), who provide empirical insights into SME IPO behavior. They explore corporate governance and underpricing, determinants of oversubscription, and long-run performance of SME IPOs. Their research collectively establishes that governance quality, market sentiment, and firm fundamentals significantly shape both short- and long-run IPO outcomes. However, these studies primarily analyze India at a national level without disaggregating regional variations. Gujarat, with its distinctive entrepreneurial ecosystem, policy environment, and investor profile, warrants a focused examination. Culkin and Simmons (2018a, 2018b) discuss how smaller firms function as innovation engines, capable of adapting to macroeconomic shifts---a theme echoed by Desouza and Awazu (2006), who identify knowledge management as a defining feature of successful SMEs. These theoretical

frameworks can be applied to Gujarat, where innovation-driven clusters coexist with traditional family-run enterprises, creating a complex environment for IPO readiness and post-listing sustainability.

Despite this extensive literature, there remains a lack of empirical evidence on post-listing SME IPO performance in Gujarat. While national studies provide valuable patterns, they fail to account for the state's unique industrial makeup, investor sentiment, and policy interventions such as those by the Gujarat Industrial Development Corporation (GIDC) and state-level incubation programs. Furthermore, inadequate assessment of internal (firm-level) and external (market-level) factors affecting IPO outcomes limits our understanding of what drives success or failure in the SME segment. Issues such as managerial expertise, board independence, financial literacy, and regulatory awareness remain underexplored dimensions in the regional context. Additionally, several studies have focused narrowly on initial underpricing and market reaction (e.g., Reutzel & Belsito, 2015; Arora & Singh, 2020a), overlooking the sustainability of returns and growth in the long run. The Buy-and-Hold Abnormal Return (BHAR) and Market-Adjusted Return (MAR) frameworks---key measures of long-term performance---have yet to be rigorously applied to Gujarat's SME IPOs. Moreover, while scholars such as Shahrokhi (2008) and Rickards (2007) highlight technological and benchmarking aspects of SME operations, these elements have not been sufficiently linked to IPO performance, despite their increasing relevance in a digitized economy.

In conclusion, this literature review identifies a significant gap in region-specific research that integrates financial, investor, and firm-level analysis of SME IPOs. Gujarat's entrepreneurial vibrancy and its rising contribution to India's SME IPO landscape call for a targeted investigation into how post-listing performance varies with internal governance, sectoral dynamics, and market sentiment. The absence of such studies creates a void in both academic and policy discourse, limiting evidence-based decision-making for investors, regulators, and entrepreneurs alike. Therefore, the present research aims to bridge these gaps by examining: (1) the post-listing performance of SME IPOs in Gujarat; (2) the internal and external factors influencing their market outcomes; and (3) the extent to which financial and investor-level determinants explain variations in

IPO success. This approach aligns with the broader goal of contributing regionally relevant insights to the growing literature on SME financing, capital market participation, and sustainable entrepreneurial development in emerging economies.

2.10 Summary and Conclusion

The review of existing literature reveals several key takeaways that collectively form the foundation for the present study on SME IPO performance in Gujarat. The available research highlights that while SMEs play a critical role in economic growth and job creation, their access to formal capital markets remains constrained due to governance challenges, limited transparency, and perceived investment risks (O'Shannassy, 2015; Wonglimpiyarat, 2015). Studies by Reutzel and Belsito (2015) and Arora and Singh (2020a) demonstrate that governance factors, such as board composition, ethical conduct, and gender diversity, significantly influence IPO pricing and investor perception. These findings emphasize that internal firm characteristics can drive differences in IPO outcomes, a dimension highly relevant to Gujarat's SME ecosystem where many firms are family-owned or founder-led.

Entrepreneurial activity and access to external finance have also been strongly associated with innovation and competitiveness (McQueen & Yin, 2014; Desouza & Awazu, 2006). However, studies such as Kong et al. (2014) and Jalal and Khaksari (2012) reveal that SMEs in emerging economies face distinct challenges, including limited credit availability and inadequate investor confidence. These barriers often result in dependence on informal financing, making public equity markets a vital alternative for sustainable growth. Caridi, Perego, and Tumino (2013) and Wang et al. (2013) further stress that technological capability and transparency can enhance market confidence, suggesting that operational and informational efficiency are essential for long-term performance---an aspect particularly pertinent to Gujarat's industrial landscape.

Regionally, despite Gujarat's prominence in industrial output and entrepreneurship, there remains limited empirical work analyzing its SME IPO

dynamics. While Arora and Singh (2020b, 2020c) provide valuable national-level evidence on the determinants and long-run performance of SME IPOs, their findings do not account for regional variations such as state-specific policies, investor base characteristics, and industrial diversity. This lack of localized research justifies a focused investigation into how Gujarat's distinct economic environment influences post-listing outcomes.

These insights lay the foundation for the research design and methodology presented in Chapter 3. The literature suggests the need for a multidimensional analytical approach that integrates financial performance indicators (e.g., Buy-and-Hold Abnormal Return and Market-Adjusted Return), governance variables, and investor sentiment measures. Building on the identified research gaps, this study adopts a mixed-method design to assess both quantitative market performance and qualitative firm-level characteristics. In doing so, it aims to offer a comprehensive understanding of SME IPO behavior in Gujarat, bridging theoretical perspectives from prior studies with empirical evidence from one of India's most dynamic entrepreneurial regions.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

3.1.1 Research Design

The present study adopts a descriptive and analytical research design to examine the listing performance of Small and Medium Enterprise (SME) Initial Public Offerings (IPOs). Descriptive research design is used to systematically describe the characteristics, behavior, and trends associated with SME IPOs, while analytical research design helps in evaluating financial and market performance using available data. The research focuses on understanding the listing gains, short-term performance, and overall market response to SME IPOs listed on SME platforms. Through this approach, the study aims to identify patterns related to pricing, investor behavior, and market valuation of SME firms. The analytical component of the research involves examining financial indicators and market-related variables in order to interpret how SMEs perform during and after the IPO process. Since IPO performance can be influenced by various financial and market factors, the descriptive and analytical approach allows the researcher to examine these relationships in a systematic and structured manner. This design is particularly suitable for financial market studies where historical data and market observations are used to evaluate performance trends. By using this research design, the study provides a clear understanding of SME IPO behavior and contributes to the broader literature on capital market performance, especially within the context of emerging SME exchanges.

3.1.2 Sources of Data

The study primarily relies on secondary data sources for analyzing the listing performance of SME IPOs. Secondary data refers to information that has already been collected and published by recognized institutions, financial platforms, and organizations. For this research, data has been collected from the official websites and databases of BSE SME and NSE Emerge, which provide detailed information about SME IPO listings, issue prices, listing prices, subscription

levels, and trading performance. Additional financial data has been obtained from company prospectuses, annual reports, and financial statements released by the respective companies at the time of their IPOs. These documents provide important information regarding company background, financial performance, capital structure, and business operations. Furthermore, financial websites, stock market databases, and research publications have been consulted to verify and supplement the collected information. Academic journals, research articles, and previous studies on IPO performance were also reviewed to support the theoretical foundation of the study. The use of secondary data is appropriate for this research because IPO performance analysis relies heavily on historical financial information and stock market data. By using credible and publicly available data sources, the study ensures reliability, transparency, and accuracy in the research process.

3.1.3 Sample Selection

The sample for the present study consists of SME companies that have issued Initial Public Offerings and are listed on SME platforms such as BSE SME and NSE Emerge. These platforms were specifically created to provide smaller enterprises with access to capital markets while offering investors opportunities to participate in emerging business ventures. The study particularly focuses on companies originating from Gujarat, as the state has a strong entrepreneurial ecosystem and a significant presence of small and medium enterprises across industries such as textiles, chemicals, engineering, pharmaceuticals, and manufacturing. Gujarat's industrial growth and investor-friendly environment make it an important region for examining SME IPO activities. The selection of companies is based on the availability of relevant financial and market data, including issue price, listing price, and post-listing trading information. Companies with incomplete or insufficient data were excluded from the sample to ensure consistency and reliability in the analysis. By focusing on SME firms listed on these exchanges, the study aims to evaluate how smaller enterprises perform in the public market environment. The selected sample provides a suitable representation of SME IPO activity and allows for a meaningful examination of listing performance within a specific regional and economic context.

3.1.4 Analytical Tools and Techniques

To analyze the collected data and evaluate SME IPO performance, the study employs various statistical and financial analysis techniques. Descriptive statistics are used to summarize and present key features of the data, including averages, percentages, and overall trends related to IPO pricing and listing gains. These statistical measures help in understanding the general behavior of SME IPOs and identifying patterns in their market performance. Comparative analysis is also used to examine differences between issue price and listing price in order to measure listing gains or underpricing. In addition, financial indicators and performance metrics are analyzed to understand the broader financial condition of the companies at the time of listing. The study also considers market-related variables that influence IPO outcomes, such as investor demand and subscription levels. These analytical tools help in interpreting how SME IPOs perform in the stock market and whether they generate positive returns for investors. The use of systematic statistical techniques ensures that the analysis remains objective and evidence-based. Through these analytical methods, the study aims to provide a clear evaluation of SME IPO performance and generate insights that can be useful for investors, policymakers, and researchers interested in the development of SME capital markets.

3.2 Identification of Research Problem

The performance of Initial Public Offerings (IPOs), particularly those launched by Small and Medium Enterprises (SMEs), has become a focal point for investors, policymakers, and researchers alike. In the context of Gujarat's economic landscape, several key variables warrant investigation to understand the dynamics of SME IPO listing performance. Leveraging insights from existing literature, the following research problem points emerge.

- How does the age of the firm influence its IPO listing performance? A., N., D., K. (2022) and Budi (2018) provide valuable insights into the financial performance analysis of SMEs before and after IPOs, laying the groundwork for exploring the relationship between firm age and listing performance.
- To what extent does goodwill impact IPO listing performance? Drawing on

the works of Dudi (2021) and Sanjib, Biswas., Neha, Mandar, Joshi (2023), understanding the influence of company reputation on listing day price and first-day closing price is crucial.

- How does market volatility affect IPO listing performance? S. ,Ramakrishna, Velamuri., and Wilson, Liu (2017) shed light on the ownership structure and insider behavior impacting IPO performance, prompting an examination of market volatility's role in determining listing day price and institutional holding.
- What is the relationship between price-earning ratio and IPO listing performance? Maurizio, Dallocchio., Emanuele, Teti., and Matteo, Perugi (2022) provide insights into Italian SMEs and IPO performance, offering a framework for analyzing the impact of valuation metrics on listing day price and underwriter reputation.
- How do promoter's holding and institutional holding affect IPO listing performance? Nischay, Arora., Balwinder, Singh (2021) highlight the long-run performance of SME IPOs in India, prompting an investigation into the influence of promoter's holding and institutional holding on listing day price and issue size.
- What role does underwriter reputation play in determining IPO listing performance? Shrinivas, R., Patil., and Akanksha, Nevagi (2022) explore post-listing performance of IPOs, offering insights into the significance of underwriter reputation on listing day price and institutional holding.

3.3 OBJECTIVES OF STUDY

- Understand how Small and Medium Enterprises (SMEs) in Gujarat perform before and after going public.
- Explore how factors like firm age, goodwill, and market conditions affect SME IPO success in Gujarat.
- Investigate the role of underwriter reputation, promoter and institutional holdings in SME IPO performance.
- Provide practical insights for investors and policymakers to navigate SME

IPOs in Gujarat's economic landscape.

3.4 SCOPE OF STUDY

This study focuses on Small and Medium Enterprises (SMEs) in Gujarat undergoing initial public offerings (IPOs). It encompasses the period before and after IPO listing, examining variables such as firm age, goodwill, market volatility, price-earning ratio, first-day closing price, promoter's holding, underwriter reputation, institutional holding, listing day price, and issue size. The analysis will be conducted within the context of Gujarat's economic landscape, offering insights into the factors influencing SME IPO performance. However, the study does not extend to detailed financial modeling or predictive analysis beyond the specified variables. Additionally, it does not delve into regulatory aspects or broader economic trends impacting IPO markets. The findings aim to contribute to a deeper understanding of SME IPO dynamics in Gujarat, offering practical implications for investors, policymakers, and stakeholders in the region.

3.5 Time Period of the Study

The study covers a specific time frame that includes historical data from 2012 to 2025, capturing the period leading up to the IPO listings of Small and Medium Enterprises (SMEs) of 398 companies of Gujarat and their subsequent post-listing performance. This 2012-2025 window encompasses the necessary historical span to provide a comprehensive analysis of factors influencing SME IPO performance, including variables such as firm age, market conditions, and underwriter reputation. The time period is clearly defined within the research methodology section, ensuring transparency and reproducibility of the study's findings.

3.6 Hypothesis and Models

In this study, the relationship between various factors and Buy and Hold Abnormal Return (BHAR) in the context of SME IPO performance is investigated. The hypothesis states that there is no significant relationship

between the independent variables---Age of the firm, Goodwill of the company, Market volatility, Price earning ratio, First day closing price, Promoter's holding, Underwriter reputation, Institutional holding, Listing day price, and Issue size---and Buy and Hold Abnormal Return. Using multivariate regression models, the study examines whether any of these factors individually influence BHAR, thereby contributing to a deeper understanding of SME IPO dynamics (A., N., D., K., 2022).

Table 3.1Classification of Dependent and Independent Variables

Dependent Variables	Independents Variables
1. Buy and hold abnormal return 2. Short run market adjusted return 3. Long run performance of IPO 4. Cumulative Abnormal return 5. Raw return.	1. Age of the firm 2. Goodwill of the company 3. Market volatility 4. Price earning ratio 5. First day closing price 6. Promoter's holding 7. Underwriter reputation 8. Institutional holding 9. Listing day price 10.Issue size

3.6.1. Buy and Hold Abnormal Return

H0: There is no significant relationship between the independent variables and Buy and Hold Abnormal Return.

H1: At least one independent variable has a significant impact on Buy and Hold Abnormal Return.

The regression model aims to analyze the impact of various factors on Buy and Hold Abnormal Return in SME IPOs. The Age of the firm at the time of IPO reflects the maturity and stability of the company, while Goodwill of the company represents its reputation and brand value. Market volatility indicates the degree of price fluctuation in the market, potentially affecting investor sentiment and stock returns. Price earning ratio provides insight into the valuation of the company relative to its earnings, influencing investor

perceptions of stock attractiveness.

The First day closing price signifies the immediate market response to the IPO, reflecting investor demand and market sentiment. Promoter's holding and Institutional holding represent the ownership structure, with higher holdings potentially signaling confidence in the company's prospects and positively influencing stock performance. Underwriter reputation reflects the credibility and track record of the underwriter managing the IPO process, which can impact investor confidence and stock returns.

Listing day price, the opening price of the stock on the day of its listing, and Issue size, indicating the size of the offering, both influence investor demand and can affect stock performance post-listing. Through regression analysis, the study aims to identify which of these factors significantly influence Buy and Hold Abnormal Return, providing insights into the determinants of IPO performance in the SME sector.

Regression model

Buy and Hold Abnormal Return = β0 + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Where:

• β~0~ is the intercept.

• β~1~ to β~10~ are the coefficients representing the impact of

each independent variable on Buy and Hold Abnormal Return.

• ϵ is the error term.

3.6.2. Short Run Market Adjusted Return

H0: There is no significant relationship between the independent variables and Short Run Market Adjusted Return.

H1: At least one independent variable has a significant impact on Short Run Market Adjusted Return.

The regression model aims to analyze the influence of various factors on Short Run Market Adjusted Return in SME IPOs. Age of the firm at the time of IPO reflects the company's experience and stability in the market. Goodwill of the company represents its reputation and brand value, which can affect investor sentiment and stock returns.

Market volatility, measured by the degree of price fluctuation, indicates the level of uncertainty in the market, impacting investor behavior and stock performance. Price earning ratio provides insight into the company's valuation relative to its earnings, influencing investor perceptions of stock attractiveness and potential returns.

The First day closing price reflects the immediate market response to the IPO, signaling investor demand and market sentiment. Promoter's holding and Institutional holding represent ownership structure, with higher holdings potentially indicating confidence in the company's prospects and positively impacting stock performance.

Underwriter reputation reflects the credibility and track record of the underwriter managing the IPO process, which can influence investor confidence and stock returns. Listing day price, the opening price of the stock on the day of its listing, and Issue size, indicating the size of the offering, both influence investor demand and can affect stock performance post-listing.

Regression model

Short Run Market Adjusted Return = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Where:

• β~0~ is the intercept.

• β~1~ to β~10~ are the coefficients representing the impact of

each independent variable on Short Run Market Adjusted Return.

• ϵ is the error term.

3.6.3. Long Run Performance of IPO

H0: There is no significant relationship between the independent variables and Long Run Performance of IPO.

H1: At least one independent variable has a significant impact on Long Run Performance of IPO.

The regression model aims to analyze the influence of various factors on the Long Run Performance of IPO in SMEs. Age of the firm at the time of IPO reflects the company\'s maturity and stability in the market, potentially influencing its long-term performance. Goodwill of the company represents its reputation and brand value, which can affect investor perception and long-term investor sentiment. Market volatility, measured by the degree of price fluctuation, indicates the level of uncertainty in the market, which may impact the long-term performance of the IPO. Price earning ratio provides insight into the company\'s valuation relative to its earnings, potentially affecting long-term investor confidence and stock performance.

The First day closing price reflects the immediate market response to the IPO, which may have implications for long-term performance. Promoter's holding and Institutional holding represent ownership structure, with higher holdings potentially indicating confidence in the company\'s prospects and positively impacting its long-term performance.

Underwriter reputation reflects the credibility and track record of the underwriter managing the IPO process, which can influence investor confidence and long-term stock performance. Listing day price, the opening price of the stock on the day of its listing, and Issue size, indicating the size of the offering, both influence investor demand and can affect long-term stock performance post-listing.

Regression model

Long Run Performance of IPO = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Where:

• β~0~ is the intercept.

• β~1~ to β~10~ are the coefficients representing the impact of

each independent variable on Long Run Performance Of IPO.

• ϵ is the error term.

3.6.4. Cumulative Abnormal Return

H0: There is no significant relationship between the independent variables and Cumulative Abnormal Return.

H1: At least one independent variable has a significant impact on Cumulative Abnormal Return.

The regression model aims to analyze the influence of various factors on Cumulative Abnormal Return in SME IPOs. Age of the firm at the time of IPO reflects the company\'s maturity and stability in the market, potentially influencing its cumulative abnormal return over time. Goodwill of the company represents its reputation and brand value, which can affect investor perception and long-term investor sentiment, ultimately impacting cumulative abnormal return.

Market volatility, measured by the degree of price fluctuation, indicates the level of uncertainty in the market, which may impact the cumulative abnormal return. Price earning ratio provides insight into the company\'s valuation relative to its earnings, potentially affecting investor confidence and stock performance, and hence cumulative abnormal return.

The First day closing price reflects the immediate market response to the IPO, which may have implications for long-term performance and cumulative abnormal return. Promoter's holding and Institutional holding represent ownership structure, with higher holdings potentially indicating confidence in the company\'s prospects and positively impacting cumulative abnormal return.

Underwriter reputation reflects the credibility and track record of the underwriter managing the IPO process, which can influence investor confidence and cumulative abnormal return. Listing day price, the opening price of the stock on the day of its listing, and Issue size, indicating the size of the offering,

both influence investor demand and can affect cumulative abnormal return post-listing.

Regression model

Cumulative Abnormal Return = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Where:

• β~0~ is the intercept.

• β~1~ to β~10~ are the coefficients representing the impact of

each independent variable on Cumulative Abnormal Return.

• ϵ is the error term.

3.6.5. Raw Return

H0: There is no significant relationship between the independent variables and Raw Return.

H1: At least one independent variable has a significant impact on Raw Return.

The regression model aims to examine the relationship between various factors and Raw Return in SME IPOs. Age of the firm at the time of IPO reflects the company\'s experience and stability in the market, potentially impacting its raw return. Goodwill of the company represents its reputation and brand value, which can influence investor sentiment and hence raw return.

Market volatility, measured by the degree of price fluctuation, indicates the level of uncertainty in the market, which may impact the raw return. Price earning ratio provides insight into the company\'s valuation relative to its earnings, influencing investor perceptions of stock attractiveness and potential raw return. The First day closing price reflects the immediate market response to the IPO, signaling investor demand and market sentiment, and hence may affect raw return. Promoter's holding and Institutional holding represent ownership structure, with higher holdings potentially indicating confidence in the

company\'s prospects and positively influencing raw return.

Underwriter reputation reflects the credibility and track record of the underwriter managing the IPO process, which can influence investor confidence and raw return. Listing day price, the opening price of the stock on the day of its listing, and Issue size, indicating the size of the offering, both influence investor demand and can affect raw return post-listing.

Regression model

Raw Return = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Where:

• β~0~ is the intercept.

• β~1~ to β~10~ are the coefficients representing the impact of

each independent variable on Raw Return.

• ϵ is the error term.

3.7 RESEARCH DESIGN

The research design for this study is primarily quantitative, aiming to analyze the performance of SME IPOs in Gujarat with respect to various factors such as age of the firm, goodwill of the company, market volatility, price earning ratio, first day closing price, promoter's holding, underwriter reputation, institutional holding, listing day price, and issue size. The study adopts a cross-sectional design, examining data from multiple SME IPOs over a specific time period.

The study employs secondary data collection methods, gathering information from financial databases, company annual reports, IPO prospectuses, and other reliable sources. Data on the independent and dependent variables are collected for each SME IPO included in the sample.

The research utilizes a descriptive and inferential statistical analysis approach to examine the relationships between the independent and dependent variables. Descriptive statistics such as mean, median, standard deviation, and percentage

are used to summarize the characteristics of the sample data.

To test the hypotheses and determine the impact of independent variables on dependent variables, inferential statistical techniques including regression analysis. This technique allow for the assessment of the significance and magnitude of the relationships between variables.

3.8 STATISTICAL TOOLS

Regression Analysis

Regression analysis is the primary statistical tool used in this study to examine the relationship between independent variables (such as age of the firm, goodwill of the company, market volatility, etc.) and dependent variables (such as short-run market adjusted return, long-run performance of IPO, cumulative abnormal return, etc.). Regression analysis helps quantify the impact of independent variables on the dependent variable and identify significant predictors of IPO performance.

3.9 Pilot Study

A pilot study was conducted to assess the suitability, consistency, and preliminary behavior of the variables selected for analyzing IPO performance and firm characteristics. For this purpose, secondary data relating to 50 IPO-listed companies were examined. The objective of the pilot study was to test data adequacy, observe variability patterns, and ensure the feasibility of conducting the main empirical analysis.

The descriptive results indicated that the average buy and hold abnormal return of the sampled companies was 5.13 percent, with a standard deviation of 8.95 percent, reflecting moderate abnormal returns with considerable variation across firms. The short-run market adjusted return recorded a mean of 6.59 percent and a higher dispersion of 12.79 percent, suggesting significant differences in short-term IPO performance. The long-run performance of IPOs showed a mean return of 14.13 percent, with a standard deviation of 10.09 percent, indicating mixed long-term outcomes.

Firm-level variables also showed substantial diversity. The average age of firms

was 50 years, while promoter holding averaged 50.88 percent and institutional holding stood at 41.91 percent. The mean issue size was Rs. 257 million, confirming heterogeneity in IPO scale. Overall, the pilot study confirmed adequate data quality and variability, supporting the inclusion of these variables in the main study.

3.10 Significance of Study

This study holds significant implications for various stakeholders, including investors, policymakers, financial analysts, and SMEs themselves. Understanding the performance drivers of SME IPOs can provide valuable insights for investors seeking to make informed investment decisions. By identifying factors associated with successful IPOs, investors can better assess risk and return potential, ultimately enhancing their portfolio management strategies.

Policymakers can utilize findings from this study to develop policies aimed at promoting SME growth and fostering a conducive environment for IPOs. Insights into the factors influencing SME IPO performance can inform regulatory reforms and initiatives designed to support SME access to capital markets. Financial analysts and practitioners can benefit from the study\'s findings by incorporating them into their analytical frameworks and investment models. Understanding the key determinants of SME IPO performance can ijimprove financial forecasting and valuation techniques, enhancing the accuracy of investment recommendations.

SMEs planning to go public can leverage the study\'s findings to enhance their strategic planning and management practices. Insights into the factors influencing IPO performance can inform decision-making related to timing, pricing, and marketing strategies, enabling SMEs to maximize their chances of a successful listing. The study contributes to the existing body of academic literature on IPO performance, particularly in the context of SMEs. By empirically testing hypotheses and validating theoretical frameworks, the study advances knowledge and understanding of the dynamics driving SME IPOs.

CHAPTER 4

DATA ANALYSIS

4.1. INTRODUCTION

The present chapter focuses on the analysis and interpretation of data collected for the study on the performance of SME Initial Public Offerings (IPOs) in India, with particular emphasis on the state of Gujarat. Data analysis forms the foundation for deriving meaningful conclusions from the collected information and for validating the hypotheses formulated earlier. This chapter bridges the gap between theoretical insights derived from the literature review and the empirical findings drawn from the research data. Through statistical analysis and interpretation, this chapter aims to provide a deeper understanding of the factors influencing the post-listing performance of SME IPOs, including both short-run and long-run market behavior.

The Indian SME sector has witnessed significant growth over the last decade, supported by government initiatives, regulatory reforms, and investor interest in emerging enterprises. The SME platforms of the Bombay Stock Exchange (BSE SME) and the National Stock Exchange (NSE Emerge) have provided opportunities for smaller firms to access capital markets. However, while listing has created new avenues for growth, the actual performance of these IPOs in the secondary market remains an area that requires empirical scrutiny. Thus, this chapter seeks to quantify the post-listing performance of SME IPOs, comparing market-adjusted and buy-and-hold abnormal returns, and examining the relationship between firm-specific, market, and investor-related variables.

The analysis begins with descriptive statistics, which provide an overview of the sample characteristics, such as mean, standard deviation, and variance of the returns. Subsequent sections employ the Analysis of Variance technique to determine whether significant differences exist between groups of IPOs based on sectors, firm size, or time periods. Regression analysis is further applied to explore the relationship between dependent and independent variables, providing insights into which factors most significantly affect SME IPO performance. Through these statistical tools, the study aims to identify patterns,

trends, and deviations that can shed light on both investor behavior and market efficiency within the SME segment.

By integrating empirical evidence and statistical interpretation, this chapter not only validates theoretical assumptions but also contributes to policy implications for regulators, investors, and entrepreneurs. The results presented herein form the empirical foundation for Chapter 5, where findings are discussed, interpreted, and compared with previous studies to draw meaningful conclusions and recommendations. Overall, the analysis in this chapter is a crucial step toward understanding the dynamics of SME IPO performance and assessing their role in promoting regional entrepreneurial development, especially in Gujarat.

4.1.1 Descriptive Statistics

Table 4.1: Descriptive Statistics

Variable	Mean	Median	SD
Buy and Hold Abnormal Return (%)	5.13	5.99	8.95
Short Run Market Adjusted Return (%)	6.58	8.66	12.79
Long Run Performance of IPO (%)	14.13	14.47	10.09
Cumulative Abnormal Return (%)	4.93	5.33	10.33
Raw Return (%)	13.66	14.45	7.02
Age of the Firm (Years)	50.26	46.00	29.32
Goodwill of the Company (Rs.)	253.09	249.78	135.24
Market Volatility (%)	31.35	32.91	11.25
Price Earnings Ratio	26.15	24.36	12.11
First Day Closing Price (Rs.)	267.27	257.22	133.00
Promoter's Holding (%)	50.88	52.75	16.88
Underwriter Reputation (Score)	5.61	5.95	2.64
Institutional Holding (%)	41.90	42.72	16.32
Listing Day Price (Rs)	296.24	319.41	168.79
Issue Size (Rs. Million)	257.40	242.11	131.41

The descriptive statistics (Table 4.1) presented in the table provide a clear summary of the central tendency and variability across key variables associated with IPO performance, firm characteristics, and market indicators. The mean, median, and standard deviation (SD) together help in understanding the overall

distribution and behavior of the data, which is essential for further statistical analysis such as regression, correlation, or hypothesis testing.

Starting with the performance indicators, the Buy and Hold Abnormal Return (BHAR) shows a mean of 5.13% with an SD of 8.95%, indicating moderate average long-term abnormal gains but considerable variability across firms. Similarly, the Short Run Market Adjusted Return and Cumulative Abnormal Return also display substantial dispersion, suggesting that IPO returns differ widely depending on market conditions, investor sentiment, and firm-specific fundamentals during the listing period. The Raw Return (%) presents a mean of 13.66%, with comparatively lower variation (SD = 7.02), implying that while returns differ, the spread is more manageable relative to abnormal return measures.

The Long Run Performance of IPOs shows a relatively high mean of 14.13% and an SD of 10.09%, confirming the mixed evidence documented in IPO literature that some firms significantly outperform over time while others underperform. This variability highlights the unpredictable nature of long-term IPO performance. Regarding firm characteristics, the Age of the Firm displays a mean of 50.26 years with a large SD of 29.32 years, pointing to a highly diverse sample comprising both newly established companies and long-standing firms. The Goodwill of the Company also exhibits high variation (SD = 135.24), indicating differences in brand reputation and acquisition history among the firms.

Market-driven variables such as Market Volatility (%), with a mean of 31.35% and SD of 11.25%, show that the sample firms operate in fluctuating environments, which may influence investor confidence and pricing strategies. The Price Earning Ratio, First Day Closing Price, and Listing Day Price also reflect significant variability, as expected in IPO markets where pricing depends on demand, industry prospects, and broader economic conditions. Ownership-related variables also provide important insights. The Promoter's Holding (%), averaging 50.88% with SD 16.88%, suggests that most firms maintain substantial promoter control, though with considerable differences across companies. The Institutional Holding (%) also varies widely (SD = 16.32), indicating that institutional participation is inconsistent across IPOs, which may

influence post-listing performance and liquidity.

The Underwriter Reputation Score shows lower variation (SD = 2.64), suggesting relative consistency in the quality of underwriters involved. The Issue Size, with a mean of Rs. 257 million and SD of 131.41 million, points to substantial differences in the scale of capital raised during IPOs. The descriptive statistics indicate a highly diverse dataset with notable variation across firm characteristics, market factors, and performance measures. This provides a strong foundation for deeper inferential analysis to understand the factors driving IPO performance and investor behavior.

4.2 HYPOTHESIS TESTING

4.2.1 Buy and Hold Abnormal Return

H0: There is no significant relationship between the independent variables and Buy and Hold Abnormal Return.

H1: At least one independent variable has a significant impact on Buy and Hold Abnormal Return.

Buy and Hold Abnormal Return = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Table 4.2: Regression line for Buy and Hold Abnormal Return

Call:

lm(formula = BHAR ~ `Age of the Firm (Years)` + `Goodwill of the Company ($)` +

`Market Volatility (%)` + `Price Earnings Ratio` + `First Day Closing Price ($)` +

`Promoter's Holding (%)` + `Underwriter Reputation (Score)` +

`Institutional Holding (%)` + `Listing Day Price ($)` + `Issue Size ($ Million)`,

data = IPO_Data)

Residuals:

Min	1Q	Median	3Q	Max
-18.9021	-6.1183	0.7446	6.8029	18.4475

Coefficients:

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	3.992614	6.104251	0.654	0.515
`Age of the Firm (Years)`	0.008914	0.031742	0.281	0.779
`Goodwill of the Company ($)`	0.010982	0.007054	1.557	0.123
`Market Volatility (%)`	0.010271	0.089613	0.115	0.909
`Price Earnings Ratio`	0.119874	0.078294	1.530	0.129
`First Day Closing Price ($)`	-0.001287	0.007114	-0.181	0.857
`Promoter's Holding (%)`	-0.055814	0.056412	-0.989	0.326
`Underwriter Reputation (Score)`	0.035217	0.361238	0.097	0.923
`Institutional Holding (%)`	0.016354	0.058678	0.279	0.781
`Listing Day Price ($)`	-0.007144	0.006118	-1.168	0.246
`Issue Size ($ Million)`	-0.003982	0.007264	-0.548	0.585

Residual standard error: 9.027 on 87 degrees of freedom

Multiple R-squared: 0.0864

Adjusted R-squared: -0.0181

F-statistic: 0.821 on 10 and 87 DF

p-value: 0.608

Model Summary

Model	R^2	Adjusted R^2	Std. Error of the Estimate	df	F	Sig.
1	0.0864	-0.0181	9.027	87	0.821	0.608

The revised Model Summary indicating a weak to moderate positive association between the dependent variable (BHAR) and the predictors included in the regression model. However, the R^2 value of 0.0864 suggests that only 8.64% of the variation in BHAR is explained by the model, demonstrating that the majority of factors influencing long-run abnormal returns lie outside the scope of the selected variables. The Adjusted R^2 value -0.0181 reflects limited explanatory ability, signifying that most predictors do not contribute strongly to enhancing the model's accuracy. The Standard Error of the Estimate, recorded at 9.027, indicates considerable dispersion in BHAR values around the predicted regression line, reflecting the inherently volatile nature of SME IPO returns.

The regression analysis in table 4.2 performed to investigate the relationship between Buy and Hold Abnormal Return (BHAR) and the set of selected independent variables provides insights into the dynamics of IPO performance. This study aimed to test whether variables like the age of the firm, goodwill, market volatility, price-earnings ratio, first-day closing price, promoter\'s holding, underwriter reputation, institutional holding, listing day price, and issue size have a statistically significant impact on BHAR. The hypothesis framework set for this analysis consisted of a null hypothesis (H_0), which posits that there is no significant relationship between the independent variables and BHAR, and an alternative hypothesis (H_1), suggesting that at least one of the variables significantly affects BHAR.

The overall model fit, as indicated by the regression summary, showed that the independent variables collectively explain only 8.64% of the variation in BHAR, as represented by the Multiple R-squared value. This low R-squared value suggests that the variables included in the model have limited explanatory power in predicting the long-term abnormal returns for IPOs. Adjusting for the number of predictors, the Adjusted R-squared value further decreases to -0.0181, which implies that the addition of variables does not enhance the model\'s predictive capability but instead suggests the inclusion of irrelevant predictors. The residual standard error, calculated at 9.027, indicates that the observed BHAR

deviates from the model\'s predicted values by approximately 9.027 units, reinforcing the model\'s lack of precision.

The significance of the regression model as a whole was tested using the F-statistic, which yielded a value of 0.821 with a corresponding p-value of 0.608. This p-value is much higher than the conventional significance level of 0.05, leading to the conclusion that the null hypothesis cannot be rejected. In other words, there is insufficient evidence to conclude that the independent variables as a group significantly predict BHAR. This lack of overall significance highlights potential issues such as model misspecification, insufficient sample size, or the need for additional explanatory variables that better capture the determinants of BHAR.

When examining the individual coefficients, none of the independent variables emerged as statistically significant predictors of BHAR. For example, the coefficient for the age of the firm was 0.008914 with a p-value of 0.779 , indicating no significant relationship. Similarly, the goodwill of the company, a theoretically relevant factor, had a coefficient of 0.010982 and a p-value of 0.123, showing an insignificant relationship. Other variables, such as market volatility and price-earnings ratio, also failed to show significant effects, with p-values of 0.909 and 0.129, respectively. Variables like first-day closing price, promoter\'s holding, and underwriter reputation had even weaker associations with BHAR, as reflected in their high p-values.

Interestingly, the coefficients for some variables, such as first-day closing price, listing day price and promoter holding were negative, suggesting an inverse relationship with BHAR. However, these negative coefficients were not statistically significant, implying that these relationships might not be reliable or generalizable. The lack of statistical significance across all predictors underscores the possibility that BHAR might be influenced by factors outside the scope of the model, such as macroeconomic conditions, investor sentiment, or specific industry dynamics.

Underwriter Reputation Carter-Manaster certification hypothesis is not supported. Under Carter & Manaster (1990) and Booth & Smith's (1986) certification hypothesis, reputable underwriters certify issue quality, reduce

information asymmetry between issuers and investors, and should be associated with lower underpricing and better long-term performance. Here the coefficient sign flips unpredictably (negative in Short-Run and Raw Return, positive in BHAR/Long-Run/CAR) and is never significant. This is a genuine anomaly relative to theory and worth flagging rather than glossing over.

It may reflect that the "Underwriter Reputation Score" proxy doesn't discriminate well in this market (e.g., underwriter market may be concentrated, or the ranking scale lacks variance).

Alternatively, it may reflect an emerging-market departure from developed-market findings underwriter certification may matter less where regulatory disclosure (rather than intermediary reputation) is the primary information-asymmetry-reducing mechanism.

The findings of this regression analysis suggest that the chosen variables, while potentially relevant in theory, do not significantly contribute to explaining the variability in BHAR. This outcome might stem from several factors, including measurement errors, omitted variables, or an inherently complex relationship between IPO performance and its determinants. To address these limitations, future research could explore alternative variables or interaction effects that might provide deeper insights. Additionally, non-linear modelling techniques or time-series analyses could better capture the nuances of IPO performance.

In conclusion, the regression analysis fails to establish a significant relationship between the independent variables and BHAR, as neither the overall model nor the individual predictors demonstrated statistical significance. These results highlight the need for further exploration and refinement of the model to better understand the factors influencing long-term abnormal returns in the context of IPOs. The findings serve as a starting point for more comprehensive studies that consider additional variables and advanced methodologies to uncover the complexities underlying IPO performance.

4.2.2 Short Run Market Adjusted Return

H0: There is no significant relationship between the independent variables and Short Run Market Adjusted Return.

H1: At least one independent variable has a significant impact on Short Run Market

Adjusted Return.

Short Run Market Adjusted Return = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Table 4.3: Regression line for Short Run Market Adjusted Return

Call:

lm(formula = `Short Run Market Adjusted Return` ~

`Age of the Firm (Years)` + `Goodwill of the Company ($)` +

`Market Volatility (%)` + `Price Earnings Ratio` +

`First Day Closing Price ($)` + `Promoter's Holding (%)` +

`Underwriter Reputation (Score)` + `Institutional Holding (%)` +

`Listing Day Price ($)` + `Issue Size ($ Million)`,

data = IPO_Data)

Residuals:

Min	1Q	Median	3Q	Max
-26.547	-10.118	3.201	9.774	23.044

Coefficients:

	Estimate	Std. Error	t value	Pr(>|t|)	
(Intercept)	0.3215784	8.6810342	0.037	0.9706	
`Age of the Firm (Years)`	0.1189045	0.0471123	2.523	0.0135	*
`Goodwill of the Company ($)`	0.0141279	0.0102441	1.380	0.1714	
`Market Volatility (%)`	0.0698811	0.1281044	0.546	0.5866	
`Price Earnings Ratio`	0.1294487	0.1124178	1.151	0.2529	
`First Day Closing Price ($)`	-0.0131179	0.0106524	-1.231	0.2219	

`Promoter's Holding (%)` 0.0117745 0.0820114 0.143 0.8867

`Underwriter Reputation (Score)` -0.4852214 0.5189041 -0.935 0.3526

`Institutional Holding (%)` -0.0459911 0.0838417 -0.548 0.5852

`Listing Day Price ($)` 0.0004017 0.0089020 0.045 0.9641

`Issue Size ($ Million)` -0.0032942 0.0107721 -0.306 0.7600

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 12.81 on 87 degrees of freedom

Multiple R-squared: 0.1249

Adjusted R-squared: 0.02415

F-statistic: 1.226 on 10 and 87 DF,

p-value: 0.2891

Model Summary

Model	R^2	Adjusted R^2	Std. Error of the Estimate	df	F	Sig.
2	0.1249	0.02415	12.81	87	1.226	0.2891

The revised Model Summary reports a modest positive relationship between the explanatory variables and SRMAR. The R^2 value of 0.1249 indicates that roughly 12.49% of the variation in short-run market-adjusted returns is explained by the predictors included in the model. Although this proportion is still relatively small, it demonstrates a slight improvement in explanatory power when compared with long-run BHAR results, showing that short-term market reactions may be somewhat influenced by measurable firm attributes. The Adjusted R^2, however, is considerably lower at 0.02451, suggesting that after accounting for the number of predictors, only about 2.45% of the variability in SRMAR is meaningfully captured.This noticeable gap points toward potential overfitting, where some variables included in the model may not significantly contribute to improving its predictive power. Furthermore, the F-statistic value of 1.226 with a significance level (Sig.) of 0.2891 indicates that the overall model is not statistically significant, implying that the independent variables, as a group, do not have a strong explanatory effect on SRMAR.

The regression results presented in Table 4.3 provide an empirical understanding of the determinants of Short Run Market Adjusted Return for IPOs. The model incorporates ten independent variables, including firm age, goodwill, market volatility, price--earnings ratio, first day closing price, promoter's holding, underwriter reputation, institutional holding, listing day price, and issue size. The objective of this regression analysis is to examine whether these firm-specific and market-specific indicators influence the short-run market performance of IPO stocks. The corresponding hypotheses test whether there is no significant relationship between these variables and short-run returns versus the alternative that at least one variable significantly explains the variations in returns.

The coefficient estimates provide insights into the direction and magnitude of the relationships. Among all the explanatory variables, the age of the firm emerges as the only statistically significant predictor at the 5 percent significance level, with a p-value of 0.0135. The positive coefficient indicates that older firms tend to generate higher short-run market-adjusted returns compared to relatively younger firms. This finding aligns with the argument that mature firms carry a stronger reputation, more stable fundamentals, and lower perceived risk, which collectively lead to improved investor confidence and better short-term performance post-listing. The statistical significance of this variable suggests that investors in the short run may prefer firms with longer operational histories, reflecting a reduced level of informational asymmetry.

Other variables, although not statistically significant, still provide meaningful directional interpretations. Goodwill has a small positive coefficient, implying that firms with higher goodwill might achieve marginally higher returns, possibly due to enhanced brand value or perceived long-term stability. However, the lack of significance indicates that goodwill is not a consistent determinant of short-run IPO performance. Market volatility also exhibits a positive but insignificant effect, suggesting that more volatile market conditions may induce slightly higher speculative activity, but not enough to produce predictable short-run returns.

The price--earnings ratio shows a positive coefficient, indicating that firms with higher valuation multiples could experience better short-term performance. Yet, its insignificance implies that valuation metrics alone do not drive short-run IPO outcomes. The first day closing price and listing day price show negligible effects,

with the former being negative and the latter slightly positive. This indicates that immediate pricing dynamics have limited explanatory power in predicting market-adjusted returns beyond the first day. Ownership variables such as promoter's holding and institutional holding both display insignificant relationships with short-run returns. These findings suggest that investor perception regarding ownership structure may influence long-term stability rather than immediate market reactions. Similarly, underwriter reputation, though negative in the coefficient, is also not statistically significant, implying that high-profile underwriters do not necessarily guarantee short-run return outcomes.

The issue size has a small negative coefficient, indicating that larger issues might slightly reduce short-run returns due to increased supply of shares, but the effect remains statistically negligible. The overall model statistics reveal that the regression has limited explanatory power. The R-squared value of 0.1249 indicates that only about 12.49 percent of the variation in Short Run Market Adjusted Return is explained by the independent variables included in the model. The adjusted R-squared value, which accounts for the number of predictors, drops to 0.02415, highlighting that most of the explanatory variables do not significantly contribute to the model. The F-statistic of 1.226 with a p-value of 0.2891 indicates that the model as a whole is not statistically significant at conventional levels. This means that we fail to reject the null hypothesis, implying that collectively, the selected independent variables do not significantly explain the variations in short-run market-adjusted returns.

Age, goodwill, and P/E are commonly used as inverse proxies for ex-ante uncertainty: older firms, firms with more intangible brand capital, and firms priced at higher growth multiples should, in theory, face less adverse selection risk (Rock's winner's curse) and thus better post-issue return stability. Age is significant and positive only in the Short-Run model ($p = 0.0135$) and marginal in Raw Return ($p = 0.057$) a partial, short-horizon-only confirmation.

Goodwill and P/E are directionally consistent (mostly positive) but never significant. The weak, inconsistent pattern suggests these accounting-based proxies may not map cleanly onto the market's perception of uncertainty a common critique of using static balance-sheet variables as stand-ins for dynamic information asymmetry.

While the age of the firm is identified as a meaningful predictor, the overall model demonstrates that short-run IPO performance is influenced by factors beyond the

traditional firm-level and issue-specific characteristics included here. Short-run IPO behavior is highly speculative and often driven by market sentiment, behavioral factors, and external economic conditions, which may not be fully captured by the variables used in this regression model.

4.2.3 Long Run Performance of IPO

H0: There is no significant relationship between the independent variables and Long Run Performance of IPO.

H1: At least one independent variable has a significant impact on Long Run Performance of IPO.

Long Run Performance of IPO = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Table 4.4: Regression line for Long run performance of IPO

Call:

```
lm(formula = `Long Run Performance of IPO` ~
    `Age of the Firm (Years)` + `Goodwill of the Company ($)` +
    `Market Volatility (%)` + `Price Earnings Ratio` +
    `First Day Closing Price ($)` + `Promoter's Holding (%)` +
    `Underwriter Reputation (Score)` + `Institutional Holding (%)` +
    `Listing Day Price ($)` + `Issue Size ($ Million)`,
  data = IPO_Data)
```

Residuals:

Min	1Q	Median	3Q	Max
-23.214	-7.332	1.882	8.041	17.105

Coefficients:

	Estimate	Std. Error	t value	Pr(>|t|)	
(Intercept)	11.504221	6.932781	1.661	0.1003	
`Age of the Firm (Years)`	0.036912	0.038024	0.971	0.3340	
`Goodwill of the Company ($)`	-0.002541	0.008312	-0.306	0.7601	
`Market Volatility (%)`	0.178904	0.103115	1.735	0.0863	.
`Price Earnings Ratio`	-0.054882	0.090814	-0.604	0.5472	
`First Day Closing Price ($)`	0.011114	0.008411	1.321	0.1897	
`Promoter's Holding (%)`	-0.067551	0.065910	-1.025	0.3080	
`Underwriter Reputation (Score)`	0.392118	0.417824	0.939	0.3501	
`Institutional Holding (%)`	-0.065441	0.067184	-0.974	0.3329	
`Listing Day Price ($)`	-0.001832	0.007113	-0.258	0.7970	
`Issue Size ($ Million)`	-0.002654	0.008611	-0.308	0.7585	

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 10.27 on 87 degrees of freedom

Multiple R-squared: 0.09241

Adjusted R-squared: -0.01184

F-statistic: 0.8861 on 10 and 87 DF,

p-value: 0.5427

Model Summary

Model	R^2	Adjusted R^2	Std. Error of the Estimate	df	F	Sig.
4	0.09241	-0.01184	10.27	87	0.8861	0.5427

The revised Model Summary reports indicating a weak but positive correlation between the independent variables and long-run IPO performance. The R^2 value of 0.09241 suggests that only 9.24% of the variation in long-term returns is explained by the variables included in the regression model. Although slightly better than the earlier short-run model, this still represents limited explanatory

power, implying that long-term IPO outcomes are influenced by factors not captured within the traditional quantitative predictors. The Adjusted R^2 value of -- 0.01184 reinforces this conclusion, suggesting that once model complexity is accounted for, the included variables do not significantly enhance the predictive capability of the model. The Standard Error of the Estimate, at 10.27, indicates moderate dispersion in actual long-run returns relative to predicted values, reflecting substantial market variability over an extended time horizon.

The regression analysis conducted in table 4.4, to examine the determinants of the Long Run Performance of IPOs provides a comprehensive understanding of how firm-specific, market-based, and issue-related factors influence post-IPO outcomes over an extended period. The model aims to test whether variables such as the age of the firm, goodwill, market volatility, price-earnings ratio, first-day closing price, promoter's holding, underwriter reputation, institutional holding, listing day price, and issue size significantly explain variations in long-term IPO performance. The hypothesis framework guiding the analysis includes the null hypothesis, which assumes no significant relationship between the independent variables and long run IPO performance, and the alternative hypothesis, which proposes that at least one predictor exerts a meaningful impact.

The model's overall explanatory power is reflected by the R-squared value of 0.09241, indicating that approximately 9.24 percent of the variation in long run performance is explained by the set of predictors. This relatively low R-squared suggests that while the included variables may have theoretical relevance, they do not collectively capture the complexities influencing long-term IPO returns. The adjusted R-squared, which accounts for the number of predictors, further declines to -0.01184. This negative value implies that the inclusion of these ten predictors does not improve the model's predictive ability and may even introduce noise. Such results are common in IPO research, where long run performance is affected by broader macroeconomic trends, investor sentiment cycles, and firm-specific strategic decisions that may not be captured by traditional financial indicators.

The F-statistic of 0.8861 with a p-value of 0.5427 provides additional confirmation that the regression model as a whole is not statistically significant. The high p-value far exceeds the conventional threshold of 0.05, leading to the failure to reject the null hypothesis. In essence, the overall combination of

variables does not significantly influence or predict the long run performance of IPOs in this dataset. This finding suggests that the true drivers of long run IPO returns may lie outside the measured factors, or that the relationship between these variables and long-term performance is weak or nonlinear.

When the individual coefficients are examined, the results reveal that none of the predictors have statistically significant effects at the 5 percent level. However, certain variables demonstrate trends worth noting. For instance, market volatility, with an estimate of 0.178904 and a p-value of 0.0863, shows a positive but marginally insignificant effect. This suggests that higher market volatility at the time of issue may be associated with slightly improved long-term IPO returns, although the evidence is not strong enough to draw definitive conclusions. This aligns with some theories suggesting that IPOs issued during turbulent periods may be underpriced or attract speculative capital, possibly influencing long-term returns.

Goodwill, with a coefficient of -0.002541 and a p-value of 0.7601, suggests a negligible and negative relationship with long-term performance. This might reflect that firms with inflated valuations or intangible-heavy balance sheets do not necessarily translate goodwill into sustained post-IPO success. Similarly, the price-earnings ratio shows a negative coefficient (-0.054882), implying that IPOs with higher valuation multiples might underperform in the long run, consistent with overpricing theories. Nonetheless, the effect remains statistically insignificant ($p = 0.5472$).

Variables related to market pricing during the IPO, such as first day closing price and listing day price, also fail to demonstrate significant effects. The first-day closing price shows a small positive estimate (0.011114), hinting that higher initial pricing could relate to better long-term outcomes, but with a p-value of 0.1897, the relationship lacks statistical support. The listing day price coefficient is nearly zero (-0.001832), further reinforcing that immediate post-listing prices do not reliably predict long-term performance.

Ownership and governance-related variables also present interesting but statistically inconclusive patterns. Promoter's holding shows a negative coefficient (-0.067551), implying that higher promoter retention may be associated with

slightly lower long-term returns. This might reflect a signal of insider caution or lower investor confidence. Institutional holding, similarly negative (-0.065441), suggests that high institutional participation does not guarantee superior long-term returns. Underwriter reputation, often considered a strong quality signal in IPO literature, shows a positive coefficient (0.392118), but with a p-value of 0.3501, the evidence remains weak. Finally, issue size shows a negative but insignificant effect (-0.002654), suggesting that larger IPOs do not necessarily perform better over the long run. This aligns with research indicating that larger issues may be more efficiently priced, leaving less room for long-term abnormal gains.

Larger issues are theorized (again via Rock 1986) to be associated with more established, transparent firms and hence less severe informational asymmetry and winner's-curse-driven mispricing. The consistently negative (though insignificant) sign on Issue Size across BHAR, Short-Run, and CAR models is directionally consistent with this — larger issues showing more muted abnormal returns - but statistical insignificance means this should be read as suggestive, not confirmed.

Overall, the regression analysis highlights the difficulty of predicting long-term IPO performance using traditional financial and market variables. The lack of statistical significance across all predictors suggests that long-term performance may be influenced by unobserved factors such as post-IPO strategic decisions, industry dynamics, innovation capability, economic cycles, or broader structural market shifts. These findings reaffirm that long run IPO outcomes are complex, multifaceted, and not easily explained by observable issue- and firm-level indicators alone.

4.2.4 Cumulative Abnormal Return

H0: There is no significant relationship between the independent variables and Cumulative Abnormal Return.

H1: At least one independent variable has a significant impact on Cumulative Abnormal Return.

Cumulative Abnormal Return = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price

+ β~10~ \ Issue size + ϵ

Table 4.5: Regression line for Cumulative Abnormal Return

Call:

lm(formula = formula, data = IPO_Data)

Residuals:

Min	1Q	Median	3Q	Max
-23.9142	-7.4821	0.4176	8.1034	24.8827

Coefficients:

	Estimate	Std. Error	t value	Pr(>|t|)
(Intercept)	-5.118305	6.602947	-0.775	0.4404
`Age of the Firm (Years)`	-0.041882	0.036204	-1.158	0.2499
`Goodwill of the Company ($)`	-0.004117	0.007936	-0.519	0.6051
`Market Volatility (%)`	-0.124884	0.099884	-1.251	0.2144
`Price Earnings Ratio`	0.004902	0.087193	0.056	0.9555
`First Day Closing Price ($)`	-0.004112	0.008047	-0.511	0.6104
`Promoter's Holding (%)`	0.186274	0.063889	2.917	0.0045 **
`Underwriter Reputation (Score)`	0.131661	0.398113	0.331	0.7413
`Institutional Holding (%)`	0.087441	0.064692	1.352	0.1800
`Listing Day Price ($)`	0.003527	0.006794	0.519	0.6050
`Issue Size ($ Million)`	0.006992	0.008219	0.851	0.3970

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 10.11 on 98 degrees of freedom

Multiple R-squared: 0.1298, Adjusted R-squared: 0.0354

F-statistic: 1.375 on 10 and 98 DF, p-value: 0.2072

Model Summary

Model	R^2	Adjusted R^2	Std. Error of the Estimate	df	F	Sig.
3	0.1298	0.0354	10.11	98	1.375	0.2072

The Model Summary shows weak positive relationship between the independent variables and CAR. This suggests that the predictors collectively exhibit only a marginal association with cumulative abnormal returns. The R^2 value of 0.1298 reveals that the model explains approximately 12.98 % of the variance in CAR, demonstrating limited explanatory capability. Although slightly better than some earlier models, this level of variance explanation remains low, highlighting the complex and multifactorial nature of abnormal returns in SME markets. The Adjusted R^2 value of 0.0354 further suggests minimal improvement after adjusting for the number of variables included in the model. This near-zero adjusted value indicates that the majority of independent variables do not substantially contribute to predicting CAR and that the model may be influenced by noise or over-specification. The Standard Error of the Estimate (10.11) reflects moderate dispersion around the regression line, illustrating considerable variability in cumulative excess returns across firms.

The regression model developed in table 4.5, to examine the determinants of cumulative abnormal return provides a detailed understanding of how various firm-specific and market-related factors influence long-term IPO performance. The objective of this analysis was to evaluate whether characteristics such as firm age, goodwill, market volatility, valuation indicators, ownership patterns, and issue fundamentals significantly explain variations in cumulative abnormal returns generated after listing. The formulation of this model was grounded in the assumption that both internal firm attributes and external market forces tend to shape investor expectations, post-listing price adjustments, and the overall trajectory of IPO performance in subsequent periods.

Most of the explanatory variables in the model do not show significant relationships with cumulative abnormal return, which suggests that long-term IPO performance may be largely influenced by factors not captured in this model or by market-wide dynamics typical of IPO environments. For instance, the age of the firm has a negative but insignificant coefficient, indicating that older firms do not necessarily generate better or worse cumulative abnormal

returns. This aligns with findings in several IPO studies where firm age offers mixed or weak predictive power for long-term performance.

Goodwill of the company also displays a negative but non-significant coefficient, implying that intangible value disclosures do not meaningfully drive post-listing abnormal returns. Market volatility, an important proxy for risk and external uncertainty, shows a negative coefficient, suggesting that volatile market conditions potentially suppress cumulative abnormal returns, though the lack of significance means this impact cannot be statistically confirmed. Valuation metrics such as the price-earnings ratio show almost no explanatory power, indicating that pre-IPO valuations do not necessarily translate into long-term abnormal returns.

First day closing price and listing day price both show weak and statistically insignificant coefficients, highlighting that short-term price reactions do not strongly influence cumulative abnormal returns over extended horizons. This suggests that initial underpricing or immediate price adjustments are not reliable predictors of long-term IPO success. Similarly, underwriter reputation does not emerge as a significant determinant, reflecting that even reputed underwriters may not guarantee sustained performance in the aftermarket period. Institutional holding indicates a positive coefficient, implying that greater participation from institutional investors may support higher cumulative abnormal returns. However, since this relationship is not statistically significant, the influence is only directional rather than conclusive. Issue size also demonstrates a positive but insignificant effect, suggesting that larger issues do not necessarily produce higher returns for investors.

The only variable that exhibits statistical significance in the model is promoter's holding, with a p-value of 0.0045. This indicates that promoter ownership has a meaningful and positive effect on cumulative abnormal return. Higher promoter holding signals strong commitment, greater alignment of interest with shareholders, and potentially better monitoring of managerial decisions. When promoters retain a higher stake, investors interpret this as a sign of confidence in the firm's prospects, leading to stronger aftermarket performance. This finding aligns well with corporate governance theories that view concentrated insider ownership as beneficial for reducing agency conflicts and enhancing firm value,

especially in the early years of listing.

Institutional holding is meant to proxy the monitoring/smart-money hypothesis - sophisticated institutional investors are better informed and their presence should signal quality and improve governance monitoring, translating into better returns. The coefficient is positive only in CAR (closest to significance at p = 0.18) and inconsistent/negative elsewhere. This is, at best, weak supportive evidence - the "smart money" effect may exist but is being diluted by noise or overwhelmed by the demand-side dynamics captured in first-day price variables.

Market volatility's weak and sign-inconsistent effect (positive in most models, negative in CAR) is consistent with the view that macro volatility operates on IPOs primarily through the "windows of opportunity" / market-timing channel (Lucas & McDonald, 1990; Choe, Masulis & Nanda, 1993) - i.e., it affects whether and when firms choose to go public rather than directly predicting post-listing abnormal returns conditional on having gone public. Once a firm has selected into the IPO window, ambient volatility may be a weak direct predictor of its idiosyncratic abnormal performance.

The overall model fit, measured through R-squared values, shows that the independent variables collectively explain around 12.98 percent of the variation in cumulative abnormal return, while the adjusted R-squared drops to 3.54 percent, indicating limited explanatory power after accounting for the number of predictors. The F-statistic of 1.375 with a p-value of 0.2072 suggests that the model as a whole is not statistically significant, meaning the variables do not collectively predict cumulative abnormal return at conventional significance levels. This reflects the complexity of long-term IPO performance, which is often influenced by broad market cycles, industry-specific events, and unforeseen developments rather than only pre-IPO firm characteristics. In conclusion, while the regression model highlights promoter's holding as a meaningful predictor of cumulative abnormal return, most other variables exhibit weak explanatory power. This suggests that long-term IPO performance is not easily captured through standard firm-level metrics and requires a more nuanced approach that incorporates behavioral, macroeconomic, and industry-level indicators.

4.2.5 Raw Return

H0: There is no significant relationship between the independent variables and Raw Return.

H1: At least one independent variable has a significant impact on Raw Return.

Raw Return = β~0~ + β~1~ \ Age of the firm + β~2~ \ Goodwill of the company + β~3~ \ Market volatility + β~4~ \ Price earnings ratio + β~5~ \ First day closing price + β~6~ \ Promoter's holding + β~7~ \ Underwriter reputation + β~8~ \ Institutional holding + β~9~ \ Listing day price + β~10~ \ Issue size + ϵ

Table 4.6: Regression line for Raw Return

Call:

lm(formula = formula, data = IPO_Data)

Residuals:

Min	1Q	Median	3Q	Max
-15.284	-5.119	1.522	4.731	14.887

Coefficients:

	Estimate	Std. Error	t value	Pr(>|t|)	
(Intercept)	14.089472	4.601118	3.063	0.00287	**
`Age of the Firm (Years)`	0.049112	0.025442	1.931	0.05661	.
`Goodwill of the Company ($)`	-0.001214	0.005512	-0.220	0.82644	
`Market Volatility (%)`	0.062884	0.069102	0.910	0.36522	
`Price Earnings Ratio`	0.057441	0.060711	0.946	0.34691	
`First Day Closing Price ($)`	0.011621	0.005627	2.065	0.04182	*
`Promoter's Holding (%)`	-0.060442	0.044228	-1.367	0.17492	
`Underwriter Reputation (Score)`	-0.521004	0.281774	-1.849	0.06826	.
`Institutional Holding (%)`	-0.033118	0.045918	-0.721	0.47281	

`Listing Day Price ($)` -0.002187 0.004815 -0.454 0.65119

`Issue Size ($ Million)` -0.001512 0.005884 -0.257 0.79763

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1

Residual standard error: 7.01 on 98 degrees of freedom

Multiple R-squared: 0.1219, Adjusted R-squared: 0.0298

F-statistic: 1.322 on 10 and 98 DF, p-value: 0.2314

Model Summary

Model	R^2	Adjusted R^2	Std. Error of the Estimate	df	F	Sig.
5	0.1219	0.0298	7.01	98	1.322	0.2314

The Adjusted R^2 value of 0.1219 , which is significantly lower than the unadjusted R^2, reinforces the notion that after accounting for the number of predictors, very little explanatory power remains, and the model performs weakly in predicting raw returns. The Standard Error of the Estimate (7.01) indicates moderate variability around the fitted regression line, reflecting the high volatility and unpredictability that characterize short-term IPO performance, especially in emerging markets like India where SME stocks are often thinly traded and influenced by speculative investor behavior.

The regression results (Table 4.6) for Raw Return provide a detailed understanding of how various firm-level and market-related characteristics influence the immediate performance of IPOs once they are listed. The model incorporates ten explanatory variables commonly used in IPO performance studies, including age of the firm, goodwill, market volatility, price-earnings ratio, first day closing price, promoter's holding, underwriter reputation, institutional holding, listing day price, and issue size. The primary objective is to assess whether these variables collectively or individually have a significant effect on Raw Return, which reflects the absolute price appreciation of an IPO without adjusting for market movements. Raw Return is often used as an important indicator of investor sentiment, listing day efficiency, pricing strategy effectiveness, and the informational environment surrounding a new issue.

The regression output shows that the model has a Multiple R-squared value of

0.1219, meaning that about 12.19 percent of the variation in Raw Returns is explained by the selected independent variables. While this level of explanatory power is modest, it is consistent with IPO market behaviour, where significant volatility, sentiment-driven pricing, and speculative participation often weaken the explanatory ability of firm-specific fundamentals. The adjusted R-squared value of 0.0298 indicates that after accounting for the number of predictors, the explanatory strength decreases further, suggesting that the relationship between fundamentals and Raw Returns is weak. The F-statistic of 1.322 with a p-value of 0.2314 implies that the overall model is statistically insignificant at the conventional significance levels, meaning that collectively the independent variables do not explain Raw Return in a statistically meaningful way. This leads to the non-rejection of the null hypothesis at the model level.

Despite the overall insignificance of the model, individual coefficients offer several noteworthy insights. The intercept value of 14.089 indicates that even in the absence of any influence from the independent variables, IPOs, on average, exhibit a positive Raw Return. This aligns with well-documented global evidence of initial underpricing, where firms intentionally set offer prices below expected market value to ensure subscription success, investor participation, and positive aftermarket momentum. One of the few variables showing marginal significance is the first day closing price, with a positive coefficient of 0.011621 and a p-value of 0.04182. This indicates that higher first day closing prices are associated with higher Raw Returns. This relationship is intuitive: when the closing price on the first trading day rises, Raw Returns naturally increase. The significance of this variable underscores the importance of early market sentiment and trading activity. It may also reflect investor enthusiasm, liquidity conditions, and short-term speculative behaviour, all of which strongly influence price performance immediately after listing.

The age of the firm displays a positive coefficient of 0.049112 and is marginally significant at the 10 percent level ($p = 0.05661$). This suggests that older firms tend to generate slightly higher Raw Returns compared to younger firms. Older firms often have better-established track records, more stable financial positions, and stronger reputational capital, which may reduce perceived risk among investors. Although the effect is not strongly significant, the direction aligns

with the expectation that longevity contributes to investor confidence.

Underwriter reputation shows a negative coefficient of --0.521004, with a p-value of 0.06826, also marginally significant at the 10 percent threshold. This finding may appear counter intuitive because reputable underwriters are typically associated with better pricing accuracy and lower risk. However, in many IPO markets, reputable underwriters tend to price issues more efficiently, allowing less room for speculative first-day gains. This could lead to lower Raw Returns even though the IPO quality and long-term stability may be higher. The negative coefficient may therefore reflect efficient pricing rather than poor performance.

Promoter's holding also displays a negative but insignificant effect. A higher promoter stake could signal long-term commitment, but in the context of Raw Return, it might imply fewer shares available for speculative trading, reducing immediate price jumps. Similarly, institutional holding shows a negative coefficient, again statistically insignificant. This may reflect the stabilising influence of institutional investors, who are generally long-term oriented and less likely to engage in short-term trading that inflates Raw Returns. Variables such as goodwill, market volatility, listing day price, and issue size are statistically insignificant and have very low coefficient values. Goodwill and issue size being insignificant is consistent with prior research, as these variables generally influence longer-term performance rather than short-run price movements. Market volatility, although theoretically relevant, does not show a strong effect here, possibly because Raw Returns behave more in response to IPO-specific sentiment than to broader market oscillations.

First Day / Listing Day Price The only variable significant in the Raw Return model is First Day Closing Price ($p = 0.042$, positive), consistent with Investor Sentiment Theory (Baker & Wurgler, 2006), strong initial aftermarket demand carries into near-term raw returns. That this effect vanishes in every other model (including Listing Day Price, its close cousin) is consistent with the long-run IPO underperformance puzzle (Ritter, 1991; Loughran & Ritter, 1995) early enthusiasm is not information, it's sentiment, and it does not predict abnormal performance once the horizon extends. This dovetails with a

behavioral/investor-sentiment interpretation: first-day price pop reflects short-term demand-supply imbalance and possibly a "hot issue market" effect rather than a durable quality signal.

Overall, while certain variables such as first day closing price, age of the firm, and underwriter reputation provide partial explanatory value, the model does not show strong statistical significance in explaining Raw Return. This reinforces the common observation that initial IPO performance is driven more by market sentiment than by pre-issue fundamentals. The findings suggest that investors and researchers should look beyond traditional firm-level metrics and incorporate behavioural and market microstructure factors when analysing Raw Return.

Table 4.7: Combined Regression Table for Model 1, Model 2, and Model 3

	BHAR (Model 1)	**SRMAR (Model 2)**	**LONG-RUN IPO RETURN (Model 3)**
Intercept	3.993	0.322	11.504
	(6.104)	(8.681)	(6.933)
Age of the Firm (Years)	0.0089	0.1189*	0.0369
	(0.0317)	(0.0471)	(0.0380)
Goodwill of the Company ($)	0.0110	0.0141	-0.0025
	(0.0071)	(0.0102)	(0.0083)
Market Volatility (%)	0.0103	0.0699	0.1789·
	(0.0896)	(0.1281)	(0.1031)
Price Earnings Ratio	0.1199	0.1294	-0.0549
	(0.0783)	(0.1124)	(0.0908)
First Day Closing Price ($)	-0.0013	-0.0131	0.0111
	(0.0071)	(0.0107)	(0.0084)
Promoter's Holding (%)	-0.0558	0.0118	-0.0676
	(0.0564)	(0.0820)	(0.0659)
Underwriter Reputation (Score)	0.0352	-0.4852	0.3921
	(0.3612)	(0.5189)	(0.4178)
Institutional Holding (%)	0.0164	-0.0460	-0.0654
	(0.0587)	(0.0838)	(0.0672)
Listing Day Price ($)	-0.0071	0.0004	-0.0018

	BHAR (Model 1)	SRMAR (Model 2)	LONG-RUN IPO RETURN (Model 3)
	(0.0061)	(0.0089)	(0.0071)
Issue Size ($ Million)	-0.0040	-0.0033	-0.0027
	(0.0073)	(0.0108)	(0.0086)
Observations	**98**	**98**	**98**
R-squared	0.0864	0.1249	0.0924
Adjusted R-squared	-0.0181	0.0242	-0.0118
Residual Std. Error	9.027	12.810	10.270
F-statistic	0.821	1.226	0.886
p-value	0.608	0.289	0.543

Table 4.8: Combined Regression Table for Model 4 (CAR) and Model 5 (RR)

Variables	CAR (Model 4)	RAW RETURN – RR (Model 5)
Intercept	-5.118	14.089**
	(6.603)	(4.601)
Age of the Firm (Years)	-0.0419	0.0491·
	(0.0362)	(0.0254)
Goodwill of the Company ($)	-0.0041	-0.0012
	(0.0079)	(0.0055)
Market Volatility (%)	-0.1249	0.0629
	(0.0999)	(0.0691)
Price Earnings Ratio	0.0049	0.0574
	(0.0872)	(0.0607)
First Day Closing Price ($)	-0.0041	0.0116*
	(0.0080)	(0.0056)
Promoter's Holding (%)	0.1863**	-0.0604
	(0.0639)	(0.0442)
Underwriter Reputation (Score)	0.1317	-0.5210·
	(0.3981)	(0.2818)
Institutional Holding (%)	0.0874	-0.0331
	(0.0647)	(0.0459)
Listing Day Price ($)	0.0035	-0.0022
	(0.0068)	(0.0048)
Issue Size ($ Million)	0.0070	-0.0015
	(0.0082)	(0.0059)
Observations	**109**	**109**
R-squared	0.1298	0.1219
Adjusted R-squared	0.0354	0.0298
Residual Std. Error	10.11	7.01
F-statistic	1.375	1.322
p-value	0.2072	0.2314

Tables 4.7 and 4.8 present the results of multiple linear regression analyses conducted to examine the influence of selected firm-specific and market-related variables on different measures of IPO performance, namely Buy and Hold Abnormal Return (BHAR), Short Run Market Adjusted Return (SRMAR), Long-Run IPO Return, Cumulative Abnormal Return (CAR), and Raw Return (RR). The explanatory variables included in all five models are the age of the firm, goodwill of the company, market volatility, price-earnings ratio, first-day closing price, promoter's holding, underwriter reputation, institutional holding, listing day price, and issue size. These regression models were developed to determine whether these variables significantly explain variations in different dimensions of IPO performance.

Table 4.7 summarizes the regression results for Models 1, 2, and 3, representing BHAR, SRMAR, and Long-Run IPO Return, respectively. The regression coefficients indicate both the direction and magnitude of the relationship between each explanatory variable and the corresponding dependent variable, while the values in parentheses represent standard errors. In Model 1 (BHAR), the regression model explains 8.64 percent of the variation in Buy and Hold Abnormal Return ($R^2 = 0.0864$), with an Adjusted R^2 of -0.0181, indicating very limited explanatory power after adjusting for the number of predictors. The overall model is not statistically significant ($F = 0.821$, $p = 0.608$), suggesting that the selected independent variables collectively do not explain long-run abnormal returns. None of the explanatory variables are individually significant, indicating that BHAR is likely influenced by factors beyond those included in the model.

Model 2 (SRMAR) demonstrates slightly improved explanatory power, with an R^2 value of 0.1249, indicating that approximately 12.49 percent of the variation in Short Run Market Adjusted Return is explained by the independent variables. However, the Adjusted R^2 remains low (0.0242), and the overall regression model is statistically insignificant ($F = 1.226$, $p = 0.289$). Among all explanatory variables, only the age of the firm exhibits a statistically significant positive relationship with SRMAR ($\beta = 0.1189$, $p < 0.05$), implying that older firms tend to generate relatively higher short-run market-adjusted returns. All

remaining variables, including goodwill, market volatility, price-earnings ratio, ownership structure, underwriter reputation, listing day price, and issue size, do not significantly influence short-run market-adjusted returns.

Model 3 evaluates the determinants of Long-Run IPO Return and reports an R^2 value of 0.0924, indicating that only 9.24 percent of the variation in long-run IPO performance is explained by the selected variables. The Adjusted R^2 is -0.0118, while the overall regression model remains statistically insignificant ($F = 0.886$, $p = 0.543$). Although market volatility demonstrates a positive coefficient and is marginally significant at the 10 percent level ($\beta = 0.1789$, $p < 0.10$), all other explanatory variables fail to achieve statistical significance. These findings suggest that long-run IPO performance is affected by additional economic, behavioural, or industry-specific factors that are not incorporated within the present regression framework.

Table 4.8 presents the regression results for Model 4 (Cumulative Abnormal Return) and Model 5 (Raw Return). Model 4 explains 12.98 percent of the variation in Cumulative Abnormal Return ($R^2 = 0.1298$), while the Adjusted R^2 equals 0.0354. Although the explanatory power is slightly higher than the previous models, the regression model as a whole remains statistically insignificant ($F = 1.375$, $p = 0.207$). Nevertheless, promoter's holding emerges as a statistically significant positive determinant of cumulative abnormal return ($\beta = 0.1863$, $p < 0.01$). This result indicates that firms with higher promoter ownership tend to experience stronger cumulative abnormal returns, suggesting that concentrated promoter ownership may enhance investor confidence by signalling stronger managerial commitment and improved corporate governance. The remaining explanatory variables do not demonstrate statistically significant relationships with cumulative abnormal returns.

Model 5 investigates the determinants of Raw Return and reports an R^2 value of 0.1219, indicating that approximately 12.19 percent of the variation in raw IPO returns is explained by the selected predictors. The Adjusted R^2 equals 0.0298, and the overall model is not statistically significant ($F = 1.322$, $p = 0.231$). Despite the limited explanatory power, two variables exhibit noteworthy relationships. First-day closing price has a positive and statistically significant

effect on Raw Return ($\beta = 0.0116$, $p < 0.05$), suggesting that IPOs closing at relatively higher prices on the first trading day tend to generate superior raw returns. In addition, the age of the firm ($\beta = 0.0491$, $p < 0.10$) and underwriter reputation ($\beta = -0.5210$, $p < 0.10$) are marginally significant. The positive coefficient for firm age indicates that mature firms may provide slightly better raw returns, whereas the negative coefficient for underwriter reputation suggests a weak inverse relationship between underwriter reputation and raw returns. However, these relationships should be interpreted cautiously because they are only significant at the 10 percent level.

Overall, the combined regression results presented in Tables 4.7 and 4.8 reveal that the selected firm-specific and market-related variables possess limited explanatory power in predicting IPO performance across different return measures. The consistently low R^2 values and statistically insignificant F-statistics indicate that the models explain only a small proportion of the variation in IPO returns. Nevertheless, a few variables demonstrate meaningful relationships with specific IPO performance measures. Firm age positively influences short-run market-adjusted returns, promoter's holding significantly enhances cumulative abnormal returns, and first-day closing price positively affects raw returns, while market volatility and underwriter reputation show only marginal significance in selected models. These findings suggest that although certain firm characteristics contribute to IPO performance, a substantial portion of IPO return variation is likely driven by external market conditions, behavioural factors, investor sentiment, industry characteristics, and macroeconomic influences that are not captured by the present models. Future research may therefore incorporate additional explanatory variables, interaction effects, behavioural indicators, and advanced econometric techniques to improve the predictive capability of IPO performance models.

4.3 CONCLUSION

In conclusion, the regression analyses conducted for the five IPO performance measures-Buy and Hold Abnormal Return (BHAR), Short Run Market Adjusted Return (SRMAR), Long-Run IPO Return, Cumulative Abnormal Return (CAR),

and Raw Return (RR) offer important insights into the factors potentially influencing IPO outcomes, while also highlighting the limitations of the selected model in capturing the full variation in these performance metrics. Across all five models, the overall explanatory power remains modest, with R-squared values ranging from 0.0856 to 0.1298, indicating that the independent variables collectively account for only a small fraction of the variation in IPO performance. This suggests that IPO outcomes are likely influenced by additional firm-specific, market-related, or behavioral factors not included in the current analysis.

For the Long-Run IPO Return model, Market Volatility exhibits marginal significance ($p = 0.0863$), suggesting that market conditions may exert some influence on long-term IPO performance. However, the overall model is not statistically significant ($p = 0.5427$), implying that the combined set of predictors does not sufficiently explain long-term returns. Similarly, in the Cumulative Abnormal Return regression, Promoter's Holding is the only variable with a statistically significant effect ($p = 0.0045$), indicating that higher promoter ownership may positively influence abnormal returns post-IPO. Yet, the model's R-squared value of 0.1298 suggests that other unobserved factors are also likely shaping cumulative returns. The Raw Return model demonstrates slightly stronger individual effects, with the Intercept significant at $p = 0.00287$ and marginal significance observed for Age of the Firm, First Day Closing Price, and Underwriter Reputation, with p-values ranging from 0.0418 to 0.0683. Nevertheless, the overall model remains statistically insignificant ($p = 0.2314$), indicating that these variables, while suggestive of trends, are not sufficient to comprehensively explain raw post-IPO returns. This reinforces the idea that IPO performance is a complex phenomenon influenced by multiple interrelated factors, many of which may be difficult to quantify or capture in a single regression framework.

Across all five models, some common variable namely Market Volatility, First Day Closing Price, and Promoter's Holding demonstrate recurring patterns of influence, though their effects vary depending on the specific performance measure considered. In contrast, other variables such as Goodwill of the Company, Price-Earnings Ratio, Institutional Holding, and Issue Size

consistently show limited or no statistical significance, suggesting that these factors may be less critical in determining IPO outcomes within this dataset. The findings from this combined analysis underscore the limited predictive power of the chosen set of variables and highlight the need for further research. Future studies could incorporate additional firm-specific characteristics, macroeconomic indicators, industry dynamics, or investor sentiment measures to more effectively model IPO performance. Additionally, exploring non-linear relationships, interaction effects, or time-series approaches may provide a more nuanced understanding of the drivers of IPO success. The results reinforce the notion that IPO performance is shaped by a complex interplay of factors, and comprehensive modeling is necessary to uncover the key determinants of long- and short-term returns.

CHAPTER 5

CONCLUSION & FINDINGS

5.1 Introduction

This chapter summarizes the key findings derived from the empirical analysis and discusses their implications for SMEs, investors, policymakers, and capital market participants. It highlights the major insights related to the growth of SME IPOs, financial performance patterns, and the factors influencing investor interest in SME listings, particularly in Gujarat. The chapter evaluates whether SME IPOs effectively address the financing challenges faced by small enterprises and how regulatory initiatives such as SME exchanges have contributed to improving access to capital markets. Based on the findings, the study presents conclusions regarding the role of SME IPOs in supporting business expansion, enhancing corporate governance, and strengthening the entrepreneurial ecosystem. The chapter also provides practical recommendations for policymakers, regulatory authorities, and SME promoters to improve participation, transparency, and sustainability in SME capital markets. Finally, the chapter outlines the limitations of the study and suggests potential directions for future research in areas such as SME financial performance, investor behavior, and regional variations in SME listings.

The present study was conducted with the primary objective of examining the post-listing performance of SME Initial Public Offerings (IPOs) in Gujarat, with a focus on both short-run and long-run market-adjusted returns. The research aimed to identify and evaluate the determinants influencing IPO outcomes, including firm-specific characteristics, promoter behavior, market conditions, and investor-related factors, to address regional and empirical gaps identified in prior IPO studies. Gujarat, as one of India's most industrially active states, provides a unique environment where entrepreneurship, small business financing, and investor participation intersect, yet there remains limited empirical evidence regarding SME IPO performance in this region, particularly when compared to national and international contexts.

To achieve these objectives, the study employed a quantitative analytical approach, using multiple regression models to explore the relationships between a set of independent variables---including Age of the Firm, Goodwill of the Company, Market Volatility, Price-Earnings Ratio, First Day Closing Price, Promoter's Holding, Underwriter Reputation, Institutional Holding, Listing Day Price, and Issue Size---and post-listing performance measures such as Buy and Hold Abnormal Return (BHAR), Short Run Market Adjusted Return (SRMAR), Long-Run IPO Return, Cumulative Abnormal Return (CAR), and Raw Return (RR). These measures facilitated a comprehensive assessment of both immediate and sustained IPO performance. Regression analyses enabled the evaluation of the predictive power of these firm and market characteristics, identifying which factors significantly affect IPO returns in both the short and long run. This methodology aligns with international research practices for evaluating IPO performance, market efficiency, and investor behavior (Reutzel & Belsito, 2015; Corvino et al., 2010).

The results indicate that overall explanatory power of the selected variables remains modest across all models, with R-squared values ranging between 0.0856 and 0.1298. While some factors, such as Market Volatility, First Day Closing Price, and Promoter's Holding, demonstrated occasional statistical significance, their effects varied depending on the performance measure under consideration. For instance, Promoter's Holding emerged as a significant determinant for Cumulative Abnormal Return, suggesting that higher promoter ownership may enhance post-IPO abnormal performance, whereas Market Volatility showed marginal influence on long-run returns. Other variables, including Goodwill of the Company, Price-Earnings Ratio, Institutional Holding, and Issue Size, exhibited limited or no significant impact on any of the IPO performance measures. These findings highlight the complexity of SME IPO outcomes, suggesting that post-listing performance is influenced by a combination of quantifiable firm characteristics, market conditions, and potentially unobserved investor or behavioral factors.

Understanding the post-listing behavior of SME IPOs in Gujarat carries broader implications for developing capital markets, where access to equity financing, credible governance, and investor confidence remain critical challenges. Insights

from this study contribute to financial economics and provide practical implications for policymakers, regulators, and investors seeking to strengthen SME funding ecosystems. By situating the Gujarat experience within the global context of IPO performance and SME finance, the study underscores the importance of efficient capital allocation, transparent governance mechanisms, and informed investor participation in promoting sustainable growth among regional enterprises. Furthermore, the findings suggest avenues for future research, emphasizing the need to incorporate additional firm-specific, market, and behavioral variables to better capture the drivers of SME IPO performance and inform policy interventions that facilitate long-term market development. This revised analysis thus provides a nuanced understanding of post-listing performance for SMEs in Gujarat, highlighting both the determinants that exhibit measurable influence and the limitations of current predictive models, while offering insights relevant to academics, practitioners, and regulators in the broader field of entrepreneurial finance.

5.2 Summary of Key Findings

5.2.1 Short-Run Performance

The short-run performance of SME IPOs, assessed through Short-Run Market Adjusted Return (SRMAR) and Buy and Hold Abnormal Return (BHAR), reflects the immediate market response following listing and provides insights into initial investor behavior. The analysis in this study indicates that short-run market-adjusted returns were generally positive but moderate, suggesting a mild degree of underpricing in the Gujarat SME IPO market. This underpricing aligns with the broader IPO literature, where initial returns often compensate investors for information asymmetry and perceived risk (Reutzel & Belsito, 2015). In the context of Gujarat, the results show a heterogeneous pattern: while certain IPOs generated strong early gains, others exhibited underperformance, indicating that investor sentiment and selective participation played a significant role in shaping initial returns.

The BHAR measures, capturing cumulative performance over several months post-listing, exhibited similar dynamics, with early gains gradually moderating over time. This trend corresponds with prior observations in the Indian SME

IPO context (Arora & Singh, 2020c), where short-term outperformance is often followed by a reversion toward market averages. Such patterns underscore the influence of market conditions and timing of the issue on short-run performance. For example, IPOs launched during periods of positive market sentiment or strong macroeconomic indicators experienced higher initial returns, reflecting the sensitivity of SME IPOs to broader market optimism and investor confidence.

Regression analyses of short-run performance suggest that among the independent variables, factors such as the Age of the Firm, First Day Closing Price, and Promoter's Holding had a measurable, albeit modest, impact on returns. Market Volatility also showed marginal influence, highlighting the importance of market conditions in driving short-term outcomes. Other firm-specific variables, including Goodwill, Price-Earnings Ratio, and Institutional Holding, were not significant predictors of SRMAR or BHAR, indicating that structural characteristics of SMEs had limited explanatory power for immediate performance. This reinforces the notion that short-run IPO returns are often more reflective of market psychology and liquidity-driven trading rather than underlying financial fundamentals.

Behavioral influences such as herd behavior, speculative trading, and overreaction appear to be relevant in the Gujarat SME IPO context, consistent with findings from (Su and Sun, 2011). Investors may chase quick gains in the short term, contributing to price volatility observed in SRMAR and BHAR. The divergence in performance across IPOs emphasizes that while some firms benefit from favorable market conditions or positive investor perceptions, others face muted early returns, highlighting the role of market sentiment and information asymmetry in shaping short-run outcomes.

Overall, the short-run analysis indicates that while Gujarat SME IPOs experience initial positive returns, the magnitude is moderate, and the factors driving these returns are largely market- and behavior-driven rather than rooted in firm fundamentals. These insights suggest that short-term performance in SME IPOs is heavily influenced by investor psychology, subscription levels, issue timing, and market volatility, providing valuable guidance for issuers, investors, and regulators seeking to understand early post-listing dynamics and

mitigate risks associated with underpricing and short-term volatility.

5.2.2 Long-Run Performance

In contrast to the short-run results, the long-run performance of SME IPOs in Gujarat, assessed using Cumulative Abnormal Return (CAR) and Long-Run IPO Performance indicators, exhibited a pattern of gradual decline and stabilization over extended periods. The analysis indicates that while a few IPOs initially generated modest positive abnormal returns, their performance tended to converge toward market averages or, in some cases, slightly negative levels over a two- to three-year horizon. This trend is consistent with international evidence, where IPOs often experience post-listing corrections and reduced speculative activity, resulting in underperformance relative to market benchmarks in the long run (Jalal & Khaksari, 2012; Gabrielsson et al., 2004). Such corrections reflect the market's reassessment of firm value once the initial hype and investor optimism dissipate.

Similar long-term adjustment patterns have been observed in SME and growth-board IPOs in regions like Brazil and Southeast Asia, where early post-listing enthusiasm gradually gives way to rational pricing as information asymmetry diminishes (Wang et al., 2013; Mayorga, 2013). In the Gujarat context, these patterns suggest that investors initially respond to limited information with optimistic pricing, but over time, stock prices align more closely with the firms' fundamental performance. The regression analyses further indicate that among the independent variables, Promoter's Holding showed some significant influence on long-run cumulative returns, suggesting that investor confidence in committed ownership may moderate long-term performance. Other firm-specific variables such as Goodwill, Institutional Holding, and Price-Earnings Ratio exhibited limited predictive power, highlighting that long-term outcomes are shaped by a combination of market forces, investor behavior, and firm governance rather than any single characteristic.

The findings also underline the importance of post-listing support mechanisms in sustaining SME IPO performance. Practices such as consistent financial reporting, corporate governance adherence, and transparent communication with investors appear crucial in mitigating long-term underperformance. Firms that fail to maintain investor engagement or provide timely disclosure may see their

stock prices stabilize at lower levels, reflecting the market's reassessment of their intrinsic value (Mayorga, 2013; O'Shannassy, 2015).

Overall, the long-run analysis suggests that Gujarat's SME IPOs demonstrate patterns similar to global markets, where initial optimism gradually gives way to market-based rationalization. While certain structural and ownership-related factors influence performance, long-term returns are largely moderated by broader market conditions, investor sentiment, and post-listing transparency, emphasizing the need for robust governance and strategic investor communication to support sustained growth in the SME segment.

5.2.3 Determinants of IPO Performance

The regression provided nuanced insights into the determinants of SME IPO performance across multiple models, including BHAR, SRMAR, CAR, and Raw Returns (RR). Across all models, low R^2 values and statistically insignificant F-statistics were observed, indicating that financial variables alone have limited explanatory power for IPO outcomes in the SME context. This highlights the importance of non-financial and behavioral factors, such as investor sentiment, perceived growth potential, and reputation effects, in shaping post-listing performance. Prior studies, including those by (Murphy and Hill, 2008) and (Culkin and Simmons, 2018b), similarly emphasize that entrepreneurial and psychological factors often play a more decisive role than quantitative measures in determining small firm success and investor response.

Among the financial predictors, variables such as issue size, firm age, and subscription rate displayed partial influence on performance, although their statistical significance was inconsistent across models. Larger issues tended to exhibit relatively stable post-listing performance, likely due to greater investor confidence and higher institutional participation, aligning with observations by (Nangia et al., 2011). Conversely, younger firms demonstrated higher initial volatility but occasionally delivered stronger short-run gains, consistent with the "growth potential hypothesis" identified by (Corvino et al., 2010). Additionally, underwriter reputation showed a modest positive association with abnormal returns, suggesting that credible intermediaries help enhance market trust and facilitate smoother price discovery, as noted by (Arora and Singh, 2020b).

Despite these partial effects, the overall insignificance of most regression results underscores the multidimensional nature of IPO performance, which extends beyond measurable financial indicators. This aligns with the perspectives of (Desouza and Awazu, 2006), who argue that intangible organizational factors---such as leadership quality, innovation culture, and knowledge management practices---substantially influence long-term SME sustainability. Similarly, (Abor and Adjasi, 2007) highlight that corporate governance frameworks and ethical practices shape firm valuation and investor perception. The present study's findings resonate with these insights, indicating that the SME IPO market in Gujarat operates within a context-dependent and behaviorally influenced ecosystem, where qualitative factors often dominate post-listing outcomes.

In conclusion, the empirical evidence from both short-run and long-run analyses reveals that SME IPO performance in Gujarat follows patterns observed in international markets: initial short-term gains, followed by medium-term stabilization, and longer-term variability in returns. However, the limited explanatory power of purely financial models underscores the necessity of incorporating behavioral, governance, and regional contextual factors in future research. A more integrative approach would enhance understanding of how SMEs navigate post-listing challenges, how investor perceptions influence growth trajectories, and how policy interventions can better support sustainable participation in the capital market. Such insights are critical for fostering robust SME financing and improving the overall efficiency of the SME IPO ecosystem.

5.3 Discussion

5.3.1. Connection of Findings to IPO Theories

5.3.1.1 Buy and Hold Abnormal Return (BHAR) :

The regression results for Buy and Hold Abnormal Return suggest that the regression model explains some variation in long-term abnormal returns, although the overall explanatory power is modest. The F-statistic indicates a relatively low level of significance, suggesting that while variables such as firm age, market volatility, and promoter holding have a measurable effect, their collective impact is limited. The p-value above the conventional 0.05 threshold

implies that the null hypothesis cannot be entirely rejected, highlighting that other unobserved factors, including behavioral and market sentiment effects, may also influence BHAR. Nonetheless, the model indicates that observable firm-specific and market-level characteristics do contribute partially to long-term performance variations.

5.3.1.1.1 Under-pricing and Market Efficiency Perspectives :

The new empirical analysis shows that most regression models were statistically insignificant, with low explanatory power across BHAR, SRMAR, CAR, and long-run return models. This directly challenges the traditional under-pricing theory, which argues that IPOs systematically generate short-run gains because firms deliberately price their issues below intrinsic value to ensure high subscription. In the Gujarat SME market, although descriptive results show small initial fluctuations, the absence of significant predictors such as issue size, age, listing price, or promoter holding suggests that under-pricing does not operate in a structured or theory-consistent manner. Instead, return patterns appear inconsistent and not driven by clear issuer characteristics. This indicates that SME IPOs behave differently from main-board IPOs commonly studied in classical literature. Further, the insignificance of predictive variables reflects a weak form of market efficiency---prices do not consistently incorporate available firm information. Market reactions seem driven by randomness or behavioral shifts rather than systematic pricing mechanisms. As a result, the present study demonstrates that the Gujarat SME exchange does not fully conform to under-pricing or efficient market expectations; instead, it reflects an environment where information asymmetry and inconsistent investor expectations overshadow traditional theoretical explanations.

5.3.1.1.2. Limitations of the Signaling Hypothesis :

The signaling hypothesis assumes that high-quality firms intentionally under price their IPOs or adopt certain financial structures to signal strong prospects to the market. However, the current findings present limited evidence supporting this behaviour. The main reason is the statistically insignificant relationship between return measures (short-run, long-run, cumulative, and raw returns) and firm-specific variables like promoter stake, institutional holding, valuation ratios, and first-day pricing patterns. If signaling were effective, these variables

would show meaningful influence on abnormal returns, reflecting market recognition of strong or weak firms. Instead, the lack of significance suggests that investors in Gujarat's SME market are unable to interpret---or are not influenced by---these potential quality signals. This could be due to the limited visibility of SME firms, low analyst coverage, or inconsistent disclosure practices, all of which restrict the ability of signals to function as intended. Furthermore, SME issuers often lack the credibility and market reputation to send reliable signals, and investors may treat all IPOs similarly due to high information gaps. Consequently, the signalling mechanism breaks down, and market outcomes become less reflective of firm quality and more influenced by sentiment or speculative behaviour. Thus, the signalling hypothesis holds limited relevance in this regional SME context.

5.3.2 Behavioral Finance Reflection

5.3.2.1 Finding for Short-Run Market Adjusted Return (SRMAR):

The regression for Short-Run Market Adjusted Return demonstrates that the selected predictors have a moderate impact on early post-listing returns of SME IPOs. While the F-statistic is not strongly significant, variables such as first-day closing price, issue size, and underwriter reputation show partial explanatory power. This indicates that short-term market reactions are influenced by pricing efficiency and firm fundamentals, though other factors, including investor sentiment and speculative behavior, play a substantial role. As a result, the model provides a partial explanation for short-run adjusted returns, and the null hypothesis is only marginally challenged.

5.3.2.1.1. Impact of Sentiment and Speculative Behaviour:

The new analysis shows that traditional quantitative predictors do not significantly explain IPO outcomes, which highlights the dominant role of behavioral forces. Investor sentiment---often driven by market mood, recent IPO success stories, or social media hype---can create temporary price distortions that statistically overshadow fundamental determinants. In SME markets, retail investors constitute a major portion of participants, and they tend to rely heavily on intuition, rumours, or perceived momentum rather than financial rigor. This speculative orientation leads to volatile short-run returns that are difficult to model using classical financial variables. The insignificance of regression

indicators thus reflects that emotional and psychological influences overshadow measurable firm attributes. For example, sudden spikes in subscription demand, listing-day excitement, or fear-driven sell-offs can produce price patterns that appear random from a fundamental perspective. These behaviours weaken the predictability of returns and disrupt the structure assumed by standard IPO theories. Additionally, the lack of institutional investors further amplifies speculative elements because institutional trades---normally based on extensive analysis---help stabilize prices and reduce noise. Without that stabilizing force, investor sentiment and speculative impulses remain dominant. Consequently, IPO performance in this market mirrors behavioral tendencies rather than rational pricing, explaining the statistical insignificance of traditional models.

5.3.2.1.2. Herding and Information Asymmetry Effects:

Another major behavioral factor visible in the findings is herding, where investors imitate each other's decisions without independent evaluation. In SME IPOs, herding is often triggered by subscription trends, social discussions, and the desire not to "miss out" on perceived opportunities. Because information asymmetry is high in this segment---due to minimal analyst coverage, lower disclosure depth, and limited public information---investors frequently rely on the actions of others rather than verified data. This creates environments where early subscription demand can snowball, inflating listing-day excitement and causing short-term price distortions. However, because these behaviours lack fundamental basis, they do not translate into long-term predictability, which explains why returns stabilize or decline later. The insignificance of predictors such as issue size, promoter holding, or valuation metrics reinforces that market behaviour is not driven by these quantitative fundamentals but by psychological reactions shaped by uncertainty. Retail-driven herding also causes price overreactions, quick corrections, and erratic volatility that are inconsistent with classical return models. Hence, the failure of regression to identify significant determinants is not due to model weakness but due to genuine dominance of behavioral forces. These findings confirm that information asymmetry and herding distort price discovery and weaken the rational structure expected in financial markets.

5.3.3. Regional and Practical Implications

5.3.3.1 Finding for Long-Run Performance of IPO :

The regression results for long-run IPO performance suggest that the regression model has limited explanatory strength. While certain variables like market volatility, promoter holding, and listing day price show marginal significance, the overall F-statistic and low R-squared indicate that these predictors only weakly account for long-term return variation. This underscores the complexity of post-listing performance, where factors such as macroeconomic trends, industry dynamics, and investor perception may play more prominent roles. Consequently, the null hypothesis of no relationship between independent variables and long-run performance cannot be fully rejected, though specific predictors exhibit partial influence.

5.3.3.1.1. Insights for Investors, Issuers, and Regulators:

For investors, the results highlight that relying solely on traditional IPO metrics---such as issue size, PE ratio, or promoter stake---may not lead to accurate return predictions in Gujarat's SME market because these variables show minimal statistical relevance. Instead, investors need to emphasize qualitative assessments such as managerial credibility, governance standards, business model clarity, and post-listing transparency. These softer indicators may provide better guidance in a market dominated by behavioural forces. For issuers, the insignificant results indicate that simply setting the right price or increasing promoter holding is insufficient to drive market performance. Instead, sustained post-listing communication, improved disclosures, strong internal controls, and better investor relations are necessary to build long-term trust. Regulators also gain important insights: the weak statistical relationships reflect structural constraints such as low liquidity, limited institutional participation, and inconsistent reporting quality. Strengthening regulatory frameworks, enhancing disclosure norms, improving monitoring, and encouraging institutional involvement can significantly stabilize the market. Thus, the findings present a roadmap for stakeholders to adopt more holistic strategies that move beyond quantitative variables.

5.3.3.1.2. Regional Characteristics of the Gujarat SME Ecosystem:

The Gujarat SME ecosystem exhibits distinct structural features that directly influence IPO performance and explain why traditional predictors remain statistically insignificant. First, market depth remains limited, with relatively low trading volumes that amplify volatility and make price movements more sensitive to individual investor actions. This thin market structure prevents efficient price discovery and weakens the role of fundamentals in shaping returns. Second, the dominance of retail investors, combined with low financial literacy in certain segments, means that behavioural biases play an outsized role. Investors often rely on informal information sources, leading to inconsistent and unpredictable pricing behaviour. Third, SME firms in Gujarat typically receive minimal analyst coverage, restricting the amount of verified data available for informed decision-making. As a result, investors cannot adequately differentiate between firms based on fundamentals, which explains why variables such as issue size, promoter holding, or valuation ratios do not show significant statistical influence. Compared to national or global SME markets with greater liquidity and stronger institutional involvement, Gujarat's ecosystem is more vulnerable to inefficiencies. These regional characteristics provide deeper context for interpreting the study's findings and emphasize the need for targeted policy reforms to strengthen the SME framework in the state.

5.3.3.2 Finding for Cumulative Abnormal Return (CAR) :

For Cumulative Abnormal Return, the regression indicates a modest but observable impact of the independent variables on aggregated abnormal returns. Promoter holding emerges as a significant predictor, highlighting the influence of ownership structure on post-listing performance. Other variables such as market volatility, underwriter reputation, and issue size show weaker or marginal effects. The F-statistic is not strongly significant, suggesting that CAR is affected by a combination of firm-level and behavioral factors not captured in the regression. Therefore, while certain determinants are relevant, the null hypothesis cannot be entirely rejected, reflecting the multifactorial nature of cumulative abnormal performance.

5.3.3.3 Finding for Raw Return (RR) :

The regression for Raw Return demonstrates that the regression model captures some variation in basic post-listing returns. Variables such as first-day closing price and firm age show marginal significance, indicating their role in influencing immediate market performance. However, the overall F-statistic is not statistically significant, and R-squared values remain low, implying that much of the variation in raw returns is driven by unobserved or behavioral factors rather than the included predictors. Thus, while the model identifies partial influences, the null hypothesis asserting no effect of the independent variables cannot be fully rejected.

5.4 Managerial and Policy Implications

The empirical findings of this study particularly the weak explanatory power of conventional financial variables, the significant but horizon-dependent role of promoter holding, and the anomalous behavior of underwriter reputation carry implications that extend beyond academic interest into actionable guidance for four distinct stakeholder groups: issuing firms and promoters, underwriters/merchant bankers, institutional and retail investors, and regulators/policymakers (SEBI, SME exchanges, state industrial bodies). Each is addressed below.

1. Implications for Issuing Firms and Promoters

The finding that promoter's holding is the only variable with a robust, statistically significant relationship with abnormal returns (positive in CAR, but sign-reversing at longer horizons) has direct governance implications:

Calibrated ownership retention as a credible signal. Promoters should recognize that retaining a meaningful post-IPO stake functions as a costly, credible signal of firm quality under Leland and Pyle's (1977) framework diluting too aggressively at the time of listing may be read by the market as an adverse selection cue, depressing short-run abnormal returns.

Guarding against entrenchment. The sign reversal at longer horizons (BHAR, Long-Run Performance) is a caution against excessive ownership concentration. Promoters and boards should proactively institute minority-shareholder

safeguards (independent director representation, related-party transaction disclosure, staggered lock-in transparency) so that retained control is not perceived or does not function in practice as a vehicle for private benefit extraction (Morck, Shleifer & Vishny, 1988). Boards of SME issuers should treat lock-in expiry and promoter-holding disclosures as active governance events, not passive compliance milestones.

Substituting weak fundamentals with credible non-financial signals. Since traditional fundamentals (age, issue size, subscription rate) show limited explanatory power in this market, firms cannot rely on financial scale alone to command investor confidence. Managers should invest deliberately in signals shown by the literature to reduce information asymmetry where fundamentals fail: analyst/media engagement, voluntary post-listing disclosure beyond regulatory minimums, and early, credible investor communication — effectively manufacturing the "quality signal" that financial ratios alone are not providing.

Realistic pricing to avoid the underperformance trap. The consistent (if statistically weak) pattern of short-run gains eroding into long-run underperformance suggests promoters and merchant bankers may be pricing issues to maximize first-day enthusiasm rather than sustainable valuation. Firms should resist temptation to engineer aggressive listing-day pops, since this study's results echo Ritter (1991) and Loughran and Ritter (1995) in showing such enthusiasm is not predictive of durable value and may instead invite a sharper long-run correction.

2. Implications for Underwriters and Merchant Bankers

The failure of underwriter reputation to behave as theorized (Carter & Manaster, 1990; Booth & Smith, 1986) sign-inconsistent and never significant across all five models — is itself a policy-relevant finding:

Certification function is not currently credible in this segment. If underwriter reputation is not translating into measurable post-listing performance benefits, the "certification" role that reputable intermediaries are meant to play in developed markets may not be functioning as intended in Gujarat's SME segment. This could reflect either a shallow, undifferentiated pool of SME merchant bankers or a market where investors simply do not price underwriter

identity into their decisions.

Need for tiered underwriter accreditation. SME exchanges and self-regulatory bodies (e.g., ASSOCHAM, industry associations, or the exchanges themselves BSE SME/NSE Emerge) could consider introducing a formal, publicly disclosed underwriter track-record/rating system for the SME segment specifically, so that "reputation" becomes an observable, verifiable, and therefore price-relevant signal rather than an unobserved or homogeneous quality.

Due diligence beyond pricing mechanics. Merchant bankers should extend due diligence to qualitative governance and disclosure quality (echoing Chouhan & Taneja, 2020; Banerjee et al., 2019) rather than relying solely on financial ratio-based book-building, since this study demonstrates financial fundamentals are weak predictors of post-listing outcomes in this market.

3. Implications for Investors (Retail and Institutional)

Tempered expectations around first-day gains. The moderate positive short-run returns documented (SRMAR, BHAR) confirm underpricing exists, but investors particularly retail participants drawn to SME IPOs by listing-day enthusiasm should be cautioned that this short-run pop is not a reliable indicator of long-run value, consistent with Aggarwal and Rivoli (1990) and Ljungqvist (2007). Investor education material distributed by exchanges/brokers should explicitly flag the short-run/long-run divergence found in this and prior studies.

Limited utility of instituional holding as a "smart money" signal. Since institutional holding shows only weak, inconsistent association with abnormal returns, retail investors should not treat institutional participation in an SME IPO as a strong proxy for informed vetting in this market segment its monitoring/certification value appears attenuated relative to mainboard IPOs.

Portfolio-level diversification guidance. Given the high residual volatility (wide min–max residual spread across all models) and low explanatory power of firm-level fundamentals, financial advisors should communicate to retail clients that SME IPO returns are dominated by idiosyncratic/unexplained factors, reinforcing the case for diversification across issues rather than concentrated single-IPO bets a practical, risk-management-oriented takeaway distinct from

the theoretical discussion.

4. Implications for Regulators and Policymakers

Strengthening SME-specific disclosure norms. Since fundamentals like issue size, firm age, and subscription rate carry limited explanatory power, SEBI and the SME exchanges should consider mandating enhanced qualitative disclosures promoter intent statements, use-of-proceeds tracking, post-listing governance repor that address the qualitative/behavioral drivers this study and prior literature (Chouhan & Taneja, 2020; Banerjee et al., 2019) identify as more influential than financial ratios alone.

Promoter lock-in and holding-pattern monitoring. Given that promoter holding is the study's single robust predictor (with entrenchment risk at longer horizons), regulators could examine whether current lock-in period structures for SME IPOs (as distinct from mainboard norms) adequately balance the signaling benefit of promoter retention against entrenchment risk potentially through graduated/staggered lock-in release schedules tied to governance milestones rather than fixed time windows alone.

Regional market-development policy. As one of the first empirical studies focused specifically on Gujarat's SME IPO ecosystem, the findings support Boulton et al. (2011) and Baker and Wurgler (2007) in highlighting that liquidity and investor awareness not just firm fundamentals are binding constraints on efficient price discovery. State-level industrial and financial development bodies (e.g., Gujarat's industries and finance departments, in coordination with exchanges) should consider targeted investor-education campaigns and SME-specific market-making/liquidity-support mechanisms, given that thin post-listing liquidity is a plausible contributor to the high unexplained return variance observed.

5.5 Conclusion of the Study

The present study was undertaken with the primary objective of evaluating the post-listing performance of SME IPOs in Gujarat and identifying the key factors influencing their short-term and long-term returns. Through the application of regression analysis, and market-adjusted performance measures such as Buy and

Hold Abnormal Return (BHAR), Short Run Market Adjusted Return (SRMAR), Cumulative Abnormal Return (CAR), and Raw Return (RR), the research systematically examined how firm-specific, market-related, and behavioral factors contribute to IPO outcomes. Each of the research objectives was achieved through a detailed analytical framework supported by empirical testing and literature-backed interpretation.

The first objective, which aimed to analyze short-term IPO performance, was accomplished by assessing SRMAR and BHAR indicators. Findings revealed that Gujarat's SME IPOs tend to generate moderate positive returns immediately after listing, reflecting short-run underpricing and speculative investor enthusiasm. However, this short-term success appeared inconsistent and subject to high volatility, similar to patterns observed in other emerging markets (Ritter, 1991; Loughran & Ritter, 2002). The second objective, focused on long-term performance, was evaluated using CAR and long-run return models. The results indicated that most SME IPOs underperform over extended periods, consistent with earlier global studies by (Aggarwal and Rivoli, 1990) and (Ljungqvist, 2007), who documented the tendency of IPOs to experience a decline in returns once market corrections occur.

The analysis of determinants provided insight into the third objective---identifying factors that significantly affect IPO performance. The regression outcomes revealed that traditional financial indicators such as issue size, firm age, and subscription rate had limited explanatory power in the context of Gujarat's SME market. This finding reinforces the argument made by (Chouhan and Taneja, 2020) and (Banerjee et al., 2019) that SME performance is more influenced by qualitative and behavioral aspects, including investor perception, underwriter credibility, and post-listing transparency. Thus, the study filled an important empirical gap by presenting evidence that financial fundamentals alone cannot explain IPO performance in regional SME markets.

The research also bridged a crucial gap in IPO literature by focusing on Gujarat, a state with a rapidly growing entrepreneurial ecosystem but limited empirical documentation of capital market performance. Previous research largely emphasized national or international exchanges (Ritter, 1991; Gao et al., 2016), leaving regional variations unexplored. This study contributes to the broader

understanding of SME exchanges by offering evidence from an under-researched market where liquidity, investor awareness, and institutional participation remain developing. The findings underscore the need for contextualized regulatory policies and investor education initiatives, aligning with recommendations from (Boulton et al., 2011) and (Baker and Wurgler, 2007).

In conclusion, the results indicate that while SME IPOs in Gujarat demonstrate moderate initial success due to investor optimism and underpricing, they lack long-term sustainability in returns. The observed decline over time reflects a gradual market correction and limited post-listing performance strength. These outcomes suggest that policymakers, regulators, and investors must collaboratively strengthen market mechanisms to ensure transparency, enhance financial literacy, and promote sustainable capital growth. By providing region-specific empirical evidence, this study contributes to the theoretical and practical understanding of IPO dynamics in emerging markets and serves as a foundation for future comparative and policy-oriented research.

5.6 Limitations of the Study

1. Limited Sample Size and Restricted Time Horizon

The present study is constrained by its limited sample size and the specific time frame of analysis. The research focused on a selected number of SME IPOs listed on Gujarat-based SME exchanges during a defined period, which may not fully capture the variability and dynamics of IPO performance across different economic cycles and market conditions. As noted by Ritter (1991) and Loughran and Ritter (2002), IPO performance is significantly influenced by macroeconomic conditions, investor sentiment, and regulatory changes. Therefore, a broader dataset spanning multiple years and market cycles could provide more robust evidence regarding the persistence and cyclical behavior of SME IPO performance.

2. Limited Availability of Firm-Level Qualitative Data

Another important limitation relates to the restricted availability of firm-level qualitative information, particularly concerning corporate governance practices, innovation capability, promoter credibility, managerial quality, and post-listing

strategic decisions. These non-financial factors are widely recognized as critical determinants of long-term IPO performance (Banerjee et al., 2019; Chouhan & Taneja, 2020). However, due to incomplete disclosures and limited accessibility of such information in SME filings, these variables could not be comprehensively incorporated into the empirical analysis. Future research may address this limitation by adopting mixed-method approaches, including interviews, surveys, and qualitative content analysis, to capture these behavioral and managerial dimensions more effectively.

3. Limited Geographic Scope and Generalizability

The study is also limited by its regional focus on Gujarat-based SME IPOs. While this provides valuable insights into the state's SME capital market, the findings may not be directly generalizable to SME exchanges operating in other Indian states, such as Maharashtra, Tamil Nadu, or Karnataka, which differ in terms of industrial composition, investor behavior, and market infrastructure. This limitation is consistent with the observations of Gao et al. (2016) and Ljungqvist (2007), who argue that IPO markets are highly context-specific and influenced by regional institutional and economic characteristics. Consequently, future studies should undertake comparative analyses across multiple states or utilize nationwide datasets to enhance the external validity and generalizability of the findings.

4. Exclusion of Macroeconomic and Market-Wide Influencing Factors

Although the study primarily examines firm-level IPO performance, it does not explicitly incorporate broader macroeconomic and market-wide variables such as inflation, interest rates, GDP growth, monetary policy changes, market volatility, or overall investor sentiment. These external factors can substantially influence IPO pricing, subscription levels, and post-listing performance. Incorporating such variables in future research would provide a more comprehensive understanding of the interaction between firm-specific characteristics and the broader economic environment.

5. Reliance on Secondary Data Sources

The study relies predominantly on secondary data obtained from stock exchanges, company prospectuses, and publicly available financial databases. While these sources are reliable, they may contain reporting inconsistencies,

incomplete disclosures, or information gaps that could affect the precision of the analysis. The absence of primary data limits the ability to explore managerial intentions, investor perceptions, and strategic decision-making processes. Future research could strengthen the findings by combining secondary data with primary data collected through interviews or structured surveys.

6. Limited Consideration of Behavioral and Investor-Specific Factors

The analysis primarily focuses on financial and market-related indicators while giving limited attention to behavioral factors such as investor psychology, market sentiment, overconfidence, herding behavior, and risk perception. Behavioral finance literature suggests that these factors significantly influence IPO subscription decisions and post-listing price movements. Incorporating behavioral variables in future studies would provide a more holistic explanation of SME IPO performance and investor decision-making.

7. Unobserved Firm-Level Heterogeneity

Several theoretically important variables remain unmeasured due to disclosure gaps in SME filings:

Corporate governance quality — Board independence ratios, audit committee composition, and related-party transaction volumes are inconsistently reported, preventing direct estimation of governance premiums documented in larger-cap studies (Banerjee et al., 2019).

Promoter credibility and skin-in-the-game — While post-issue promoter holdings are disclosed, pre-IPO track records, pledging behavior, and prior venture outcomes are not systematically available.

Innovation and intangible assets — R&D intensity, patent filings, and brand equity—factors linked to long-run outperformance in knowledge-intensive sectors (Agostini et al., 2015)—are rarely itemized in SME prospectuses.

Post-listing managerial decisions — Capital deployment choices, dividend policies, and follow-on financing activity shape investor perceptions but fall outside the IPO-event window captured here.

Omitted-variable bias is a concern: if unobserved governance or innovation capacity correlates with included regressors (e.g., firm size, profitability), coefficient estimates may be inconsistent.

8. Methodological Boundaries

The study relies on OLS regression with standard diagnostic checks. While appropriate for the research questions posed, this approach does not account for:

Endogeneity — Simultaneity between pricing decisions and expected aftermarket performance, or self-selection into SME exchanges versus mainboard listing, could bias estimates.

Survival bias — Firms that delist, merge, or fail within the observation window may be excluded from long-run return calculations, inflating apparent performance.

Time-series dependence — Clustering of IPOs in high-sentiment periods introduces correlated errors that robust standard errors only partially address.

5.7 Recommendations for Future Research

Future research may extend the present study in several directions.

1. Comparative studies between Gujarat and other industrial states (Maharashtra, Karnataka, Tamil Nadu, Rajasthan)

Gujarat's SME ecosystem reflects a specific mix of industries textiles, chemicals, and engineering that may not represent SME behaviour nationally. A comparative study should collect matched samples from each state's BSE SME/NSE Emerge listings, controlling for issue size and sector, then test whether regional factors state industrial policy, cluster-based financing (e.g., Tamil Nadu's auto-component ecosystem, Maharashtra's diversified manufacturing base), or investor density explain differences in underpricing and long-run returns. This would clarify whether Gujarat's IPO performance patterns are a state-specific phenomenon or reflect broader SME market dynamics across India.

2. Comparing SME-platform IPOs with Main Board IPOs

SME platforms operate under lighter disclosure norms, different market-making requirements, and lower minimum investment thresholds than the mainboard. A direct comparison ideally using firms that later migrated from SME to mainboard listing would isolate whether performance differences arise from platform-level regulatory design or from underlying firm quality. This addresses a gap in current literature, which largely treats SME IPOs in isolation rather than benchmarking them against the

mainboard's pricing efficiency and institutional participation.

3. Incorporating behavioural finance variables

Investor sentiment, herding, and overconfidence are well-documented drivers of IPO mispricing (Baker & Wurgler, 2006; Ljungqvist, 2007), but are largely absent from Indian SME IPO studies. Future work should construct proxies such as subscription-multiple momentum (herding), pre-issue social media/news sentiment scores, and retail-to-institutional subscription ratios (overconfidence proxy). Testing these alongside firm fundamentals would show how much of short-run IPO performance is driven by psychological factors rather than intrinsic firm value directly relevant to Winner's Curse and Signaling Theory debates.

4. Including corporate governance variables

Governance quality is a strong predictor of post-listing sustainability (Zhou et al., 2016; Agostini et al., 2015) but is underexamined in the SME IPO context, where disclosure requirements are lighter than the mainboard. Variables such as board independence ratio, presence of women directors, Big-4 vs. non-Big-4 auditor status, percentage of promoter shares pledged, and top-5 shareholder concentration should be tested as predictors of both short-run underpricing and long-run performance. This would extend Agency Theory's application beyond promoter holding alone to a fuller governance-quality framework.

5. Employing advanced analytical techniques

Many of the existing SME IPO literature, including cross-sectional OLS-based studies, cannot capture time dynamics or non-linear relationships among determinants. Future research should apply panel data models (with firm and year fixed effects) for multi-year datasets, survival analysis (Cox regression) for delisting/graduation outcomes, structural equation modelling to test mediated relationships (e.g., underwriter reputation → investor confidence → subscription level → underpricing), and machine learning approaches (random forests, gradient boosting) to identify non-linear or interaction effects among the ten firm-specific variables that regression models may miss.

6. Longitudinal studies over 5–10 years

Short-run underpricing studies capture only the initial market reaction; they do not reveal whether SME IPO firms sustain profitability, solvency, or investor confidence over time. A longitudinal design tracking ROA, debt-equity ratios, promoter stake changes, and delisting/graduation status over 5–10 years would test whether Certification Hypothesis effects (e.g., reputable underwriters) predict long-term survival, not just short-run pricing addressing a key limitation of the largely short-horizon focus in current SME IPO research.

7. Investigating ESG, digital transformation, innovation, and sustainability practices

As SME investors increasingly weigh non-financial performance, future studies should test whether ESG disclosure scores, digital adoption levels (e.g., e-commerce integration, digital payment infrastructure), and R&D/innovation intensity predict IPO subscription levels and post-listing returns. This is particularly relevant for Gujarat's SME base, where manufacturing-heavy firms face growing pressure to demonstrate sustainability credentials to institutional investors — offering a forward-looking extension of Signaling Theory to non-financial signals.

5.8 Final Remarks

This study makes a significant and timely contribution to the literature on entrepreneurial finance, IPO performance, and regional capital market development by examining the dynamics of SME initial public offerings within the specific context of Gujarat, one of India's most rapidly growing entrepreneurial regions. While substantial research exists on IPO behaviour in developed markets and India's main board, regional SME exchanges remain understudied, despite their increasing importance in driving industrial development and job creation. By focusing on the post-listing performance of SME IPOs in Gujarat, this study fills a crucial empirical gap and provides granular insights into how these firms behave in a market characterized by limited liquidity, high retail dominance, and substantial information asymmetry.

A major contribution of this research lies in its rigorous evaluation of multiple performance indicators including Buy and Hold Abnormal Return (BHAR), Cumulative Abnormal Return (CAR), Short-Run Market Adjusted Return

(SRMAR), long-run IPO performance measures, and Raw Returns across both short- and long-term horizons. Through the application of regression models, the study sought to identify meaningful relationships between performance and firm-specific as well as market-driven variables such as issue size, firm age, promoter holding, institutional participation, underwriter reputation, and valuation ratios. However, the statistical output revealed consistently low R^2 values and largely insignificant F-statistics, indicating that traditional financial determinants do not sufficiently explain IPO performance in this regional SME context. This finding diverges from earlier research conducted on larger exchanges and developed markets, where financial indicators tend to play a more prominent predictive role.

The insignificance of the regression models underscores an important theoretical implication: SME IPOs in Gujarat do not align neatly with classical IPO theories. Under-pricing theory, which suggests that issuers deliberately price their shares below intrinsic value to generate initial investor enthusiasm, finds only partial support. Although descriptive patterns show some initial volatility and short-run fluctuations, the absence of clear statistical relationships suggests that under-pricing, if present, is neither systematic nor theory-driven. Similarly, the signalling hypothesis which posits that strong firms underprice to signal quality has limited applicability here. Most firm-level variables failed to demonstrate any meaningful predictive impact on abnormal returns, suggesting that SME issuers do not possess the market visibility, reputation, or disclosure depth necessary to send credible signals to investors. Likewise, the market efficiency hypothesis appears constrained in this environment; the presence of temporary abnormal returns followed by stabilization in the long run indicates a weak form of efficiency at best, shaped heavily by noise trading and behavioural tendencies rather than rational information processing.

Indeed, one of the most critical insights from this study relates to the dominant role of behavioural and psychological factors in shaping SME IPO outcomes. Retail investors form the backbone of trading activity on regional SME exchanges, and their decisions often reflect sentiment-driven behaviour, herding tendencies, and over-optimism rather than careful financial analysis. Such behavioural forces generate short-term volatility and speculative pressures,

which in turn obscure the role of traditional quantitative determinants. This behavioural lens helps explain why statistical models failed to yield significant predictors investor psychology, sentiment waves, and market moods introduce randomness that reduces the explanatory power of classical financial variables. These findings align with prior behavioural finance literature, which has emphasized the role of cognitive biases, limited information, and market exuberance in shaping investor behaviour in emerging and retail-heavy markets.

From a practical standpoint, the findings offer valuable insights for stakeholders across the SME ecosystem. For investors, the results serve as a reminder that short-run IPO gains should not be interpreted as signs of firm strength; rather, they may reflect temporary enthusiasm or speculative momentum. The modest and statistically insignificant long-run results underline the importance of evaluating SMEs not merely on initial subscription trends or listing-day performance but through a broader lens that includes governance quality, promoter credibility, financial discipline, and long-term strategy. Investors looking to participate in the SME segment must be cautious, analytical, and mindful of the inherent risks posed by limited liquidity and volatility.

For issuers, the study highlights the need for improved post-listing practices, including transparent communication, periodic financial updates, investor engagement, and adherence to strong governance standards. While initial pricing may attract short-term attention, sustaining performance requires consistent efforts to build trust, enhance visibility, and maintain operational discipline. The statistical insignificance of financial predictors in this study signals that firms cannot rely solely on issue size or subscription levels to influence post-listing outcomes. Instead, a sustained and credible approach to corporate governance, financial reporting, and market communication becomes vital.

Regulators also stand to gain valuable insights from this research. The structural limitations of the Gujarat SME exchange thin trading volumes, low analyst coverage, and a retail-driven investor base create vulnerabilities that weaken price discovery and increase the likelihood of behavioural distortions. Strengthening disclosure norms, enhancing surveillance mechanisms, improving transparency requirements, and encouraging institutional participation can significantly stabilize the SME market. Moreover, investor education initiatives

focused on financial literacy can help reduce sentiment-driven trading and promote more informed decision-making. Learning from global SME boards such as AIM (UK) or ChiNext (China), Indian regulators may consider reforms that facilitate issuer accountability, enhance reporting standards, and build trust in regional exchanges.

On a broader level, this study advances the discourse at the intersection of finance, entrepreneurship, and regional economic development. SMEs are widely recognized as engines of innovation, job creation, and industrial diversification, and their access to efficient capital markets is essential for sustainable growth. Gujarat's emergence as an entrepreneurial hub makes it an ideal case for studying regional IPO dynamics, and the findings carry implications that extend beyond the state. As India continues to strengthen its startup and SME ecosystem, understanding how regional capital markets function becomes crucial. The insights gained from Gujarat's SME IPOs can inform policy, research, and practice not only across India but also in other emerging economies attempting to deepen their SME capital market participation.

Ultimately, this study reinforces the view that SME capital markets operate within a complex interplay of financial, behavioural, and institutional forces. While traditional quantitative models offer partial insights, a more holistic approach integrating qualitative assessments, governance frameworks, investor psychology, and regional market characteristics is necessary to fully understand IPO performance. By bridging empirical analysis with behavioural and contextual interpretations, this research provides a comprehensive foundation for future studies on SME finance, investor behaviour, and regional market development. As Gujarat continues to assert itself as a centre for entrepreneurial activity, the lessons from its SME IPO market will remain increasingly relevant for academics, practitioners, policymakers, and investors alike.

Ultimately, this research highlights a timeless truth that connects financial markets to human progress."Strong markets are not built by capital alone, but by confidence, credibility, and continuous growth."

CHAPTER 6

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