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Nexus Between the Issue Size and The Initial Returns on Indian SME IPOs

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Abstract

For small and medium enterprises, being listed on a stock exchange marks a significant milestone in their growth journey. This research examines the connection between issue size (IS) and the initial performance of SME IPOs in India. The analysis is based on a dataset of 556 SME IPOs listed on the SME platforms of BSE and NSE between 2018 and 2024. Using multivariate cross-sectional regression analysis conducted through SPSS, the study also incorporates control variables, including firm age, oversubscription levels, and prevailing market conditions (hot market and cold market). On average, the SME IPOs were underpriced at a rate of 26.78%. When adjusted to the market, the average underpricing rate was 25.63%. It is found that larger IPOs are more likely to yield greater initial returns. IS has a significant positive connection with both the initial raw returns and initial market-adjusted returns. The market condition also exhibits a significant positive relation with the initial returns, indicating that IPOs during hot markets yield higher initial returns. The variables age of the firm and subscription times were found to be statistically insignificant in relation to the initial returns. These results lend empirical support to the signaling theory and the window of opportunity hypothesis. This article adds to the current literature on the underpricing of IPOs, with an emphasis on the Indian SME IPO market. The study also suggests that regulators should implement enhanced disclosure norms and due diligence for smaller IPOs to improve transparency, and a centralized SME IPO database should be created to aid informed decision-making by stakeholders.

Keywords: SMEs, IPOs, SME IPOs, underpricing, initial performance, IPO market, issue size.

Contribution/Originality of the study:

This study is one of the few empirical investigations into the relationship between issue size and initial returns in the context of SME IPOs listed on Indian SME exchanges. Unlike most prior studies that focus on mainboard IPOs, this research specifically examines Indian SME IPOs listed between 2018 and 2024, a period marked by growing investor interest in SMEs. The study contributes to the literature by using cross-sectional regression analysis to evaluate how issue size functions as a signaling mechanism, particularly within a less-liquid and less-transparent market segment.

1. Introduction

Going public marks a turning point for SMEs, offering access to capital and enhancing market credibility. Access to finance has a profound impact on MSMEs at all phases of their life cycle. Adequate financial access enables small firms to make profitable investments, promoting economic development and reducing poverty in emerging countries (Beck & Demirguc-Kunt, 2006). The requirement for collateral is an important factor in determining financial access. MSMEs frequently fail to offer high-quality collateral, resulting in their designation as "undesirable borrowers" (Ayadi & Gadi, 2013). Financial constraints limit investment opportunities and impede growth. It assists them in exploiting long-term investment opportunities and accomplishing developmental goals (Fanta, 2016; Rajamani et al., 2022).

Alternative financing options, such as capital markets, are essential to meet SMEs' long-term funding needs (Shinozaki, 2014). SME exchanges play a crucial role in bridging the gap between the demand and supply of credit for SMEs. Through an Initial Public Offering (IPO), SMEs can generate funds to support business operations, explore new markets, and drive expansion. Additionally, IPOs provide an opportunity for early investors and promoters to partially exit, enabling them to realize returns on their investments.

In 2012, SEBI launched separate SME platforms on the country's leading stock exchanges, i.e., the BSE and NSE, referred to as BSE SME and NSE EMERGE, respectively. The indices of these platforms are S&P BSE SME IPO for BSE SME and Nifty SME Emerge for NSE EMERGE. Since their inception, a substantial number of SMEs have been listed on these exchanges. Table 1 illustrates the annual SME listings and corresponding funds raised since 2012. In the initial year, 14 SMEs were listed—12 on BSE SME and 2 on NSE Emerge, raising a total of ₹127 crores. Over time, the number of listings and the total funds raised have shown consistent growth. Although the COVID-19 pandemic caused a temporary decline in listings and funds raised, the market demonstrated a strong recovery in subsequent years. By September 2024, a cumulative total of 1,106 SMEs had been listed across both platforms, collectively raising ₹20,968 crores. This impressive growth underscores the increasing adoption and significance of SME Exchanges among Indian SMEs.

Table 1. Year-wise SME listings and funds raised on SME Exchange in India (2012-2024)

Year	Listings in BSE SME	Listings in NSE Emerge	Total Listings	Funds raised (₹ crores)
2012	12	2	14	127
2013	32	2	34	362
2014	38	2	40	289
2015	38	5	43	275
2016	43	24	67	562
2017	55	80	135	1,738
2018	64	80	144	2,409
2019	37	17	54	657
2020	20	7	27	168
2021	35	24	59	787

2022	53	56	109	1,980
2023	63	120	183	4,967
2024*	54	143	197	6,647
Total	544	562	1106	20968

* Data for 2024 is only up to March

Source: Compiled by authors from the Official websites BSE SME and NSE Emerge

Successful IPOs drive investor confidence and reflect the performance of the exchange platform. Several factors influence the initial returns (hereafter referred to as IR) of IPOs, with issue size (hereafter referred to as IS) being one of the most critical determinants of IPO performance (Baluja, 2018). IS plays a crucial role in aiding a firm to strengthen its market position and navigate challenging market environments effectively (Hensler et al., 1997). Hence, this study has examined how the IS of IPOs affects the IR of the Indian SME IPOs. IS is computed as the total monetary value of shares offered by the company. The returns on the day an IPO is listed are deemed positive when the price at which shares are issued is lower than the stock's closing value on the same day, a phenomenon referred to as underpricing. Conversely, when the issuance price is higher than the stock's closing value on the listing day, it leads to negative initial returns, known as overpricing.

Understanding the dynamics between the size and IR of IPOs is crucial because it provides insights into how the scale of an offering influences its market performance. IS is one of the significant factors influencing IPO pricing (Deng & Zhou, 2015). Investors' responses towards IPOs vary depending on their size, from small to large-sized IPOs (Van Heerden & Alagidede, 2012). The IS is many a time employed as the firm size's proxy. The nexus between the IS and IR can be understood through signaling theory, which posits that larger IPOs are likely to yield higher IR by signaling the firm's high quality (Welch, 1989). Previous literature suggests that larger IPOs signal their intrinsic value through a greater degree of underpricing (Allen & Faulhaber, 1989; Grinbatt & Hwang, 1989). Thus, the IS and IR are expected to have a positive connection.

In addition to the IS, the study has considered the age of the firm, market condition (MC), and subscription times (ST) to account for control variables that may also influence the IR. Firm age is determined by the number of years between the company's incorporation and its IPO year, serving as an indicator of the firm's stability and operational experience. MCs classify IPOs as being issued during either a hot or a cold market period. Subscription rates, or oversubscription, reflect the number of times an IPO has been subscribed and serve as a measure of investor sentiment toward the offering.

Earlier research works were predominantly focused on the IPO performance of larger companies on the mainboard of the Indian stock market; relatively less work has been done on SME IPO markets. Since the institutional structure and listing regulations of SME platforms differ from those of the main board, there is a pressing need to examine the Indian SME IPO performance. This study has added to the current literature by providing significant insights into how the IS affects the IR of SME IPOs.

This article is organized into six sections. This section serves as the introductory part. The next section, literature review and hypothesis development, discusses prior research related to the study and develops the hypothesis based on the literature and research objectives. The next

section deals with the materials and methods. The fifth section, results and discussions, presents the findings and their interpretation, and the last section concludes the study.

2. Literature Review and Hypothesis Development

The phenomenon of IPO underpricing is among the most widely recognized anomalies in the IPO market. Numerous studies have examined this phenomenon and its varied determinants. (Rock, 1986) and (Allen & Faulhaber, 1989) proposed the two basic theories of IPO underpricing, i.e., the information asymmetry theory and the signaling theory. According to (Rock, 1986), there exist two kinds of investors: informed investors who possess advanced knowledge about the IPO's true value and are able to identify the underpriced shares, and uninformed investors who lack this information and have a higher risk of buying overpriced shares. Therefore, issuers may underprice the IPOs to induce investors who are not well informed. The signaling theory (Allen & Faulhaber, 1989) presents a model in which firms have the most accurate knowledge about their potential and future performance, and they deliberately underprice the IPOs to signal strong prospects to the market so that the investors would understand that only firms with strong future potential can afford the short-term costs of underpricing.

IS is a critical factor that significantly influences the degree of underpricing of IPOs (Katti & Phani, 2016). Signaling theory (Allen & Faulhaber, 1989) suggests that a large IS can signal firm confidence and lead to higher listing day returns. This suggests that a positive connection exists between the size of the IPO and IR. (Shah, 1995) studied 2056 Indian IPOs from 1991 to 1995 and observed that IPOs that are bigger in terms of size are associated with higher IR. (Ganesamoorthy & Shankar, 2013) In their study on the performance of Indian IPOs, they reported that larger offerings yielded better returns than smaller offerings. (Dhamija & Arora, 2017) found a significant positive connection between the IS and IR on SME IPOs during the period 2012-2015.

According to (Ritter, 1991), smaller IPOs possess higher information asymmetry and thus yield higher IR. Smaller offerings yield more IR, on average, than large offerings (Ibbotson et al., 1994). In line with this, studies have found a negative correlation between the IS and the IR. (Singh Matharu, 2021) studied 379 IPOs in India from 1999 to 2008 and found that larger IPOs tend to have lower IR; conversely, smaller IPOs may need to offer higher IR to attract investors. The study's findings reflected a significant inverse connection between the IPO size and IR. (Madan, 2003) reported a significant inverse connection between IPO size and IR in the Indian IPO market.

Few studies reported that the IS does not significantly influence the IR. (Kumar, 2007) examined the book-built IPOs in India during 1999-2006 and employed a multivariate cross-sectional regression to explore the impact of IS on the IR, positing that larger IPOs may yield lower IR. The study found that the IS does not have a significant impact on the IR. Similarly, (Maheshwari & Kumar, 2022) reported that the IS and IR on the IPOs have an insignificant connection, indicating that the size of the IPO does not necessarily influence the IR.

Studies have also included the IPO age, ST, and MC/timing to analyze their impact on the IR of IPOs. Market timing plays an important role in the level of IR on IPOs. (Ritter, 1984) examined a period from 1980 to 1981, during which the average IR on IPOs was 48.4% during the hot issue market, while it was 16.3% during the cold issue market. The window of

opportunity hypothesis (Ritter, 1991) suggests that firms strategically go public during favorable MC to maximize their IR. The information asymmetry theory (Rock, 1986) suggests that younger firms tend to exhibit higher information asymmetry as they lack an established track record, which leads to greater uncertainty among investors and higher IR. The subscription rate of IPOs was found to have a significant positive connection with IR in many studies, indicating that IPOs attracting large numbers of investors tend to have higher IR. (Dhamija & Arora, 2017; Narayan Pandey et al., 2021)

The literature presents mixed findings on the relationship between issue size (IS) and initial returns (IR). Several studies (Shah, 1995; Ganesamoorthy & Shankar, 2013; Dhamija & Arora, 2017) report a positive relationship, suggesting that larger IPOs are associated with higher IR, possibly due to signaling effects and greater firm credibility. In contrast, other studies (Ritter, 1991; Ibbotson et al., 1994; Singh Matharu, 2021; Madan, 2003) observe a negative relationship, where smaller IPOs yield higher IR due to greater information asymmetry and risk. A few researchers (Kumar, 2007; Maheshwari & Kumar, 2022) find no significant relationship, indicating that IPO size may not consistently influence IR. This divergence in findings highlights a research gap, particularly in the context of SME IPOs, which remain underexplored compared to mainboard IPOs in India.

The gap in the literature suggests that there is a pressing need to study the effect of IS on the IR, specifically within the SME IPO market, as most prior studies have concentrated on larger IPOs on the mainboard.

Objective and Hypothesis of the Study

The objective of this study is to examine the effect of issue size on the initial returns of SME IPOs on BSE SME and NSE EMERGE.

Based on the objective and relevant literature, the following hypothesis is formulated:

H1: IS has a significant impact on the IR of the SME IPOs.

3. Materials and methods

3.1 Data and sample

The study has used secondary data obtained from the prospectuses of the companies as well as the official websites of BSE and NSE. The data comprises 556 SME IPOs issued from January 2018 to March 2024 on the two prominent SME platforms: BSE SME of the Bombay Stock Exchange Limited and NSE EMERGE of the National Stock Exchange Limited. The study focuses on the period from 2018 to 2024 primarily due to the availability and consistency of relevant data. Prior to 2018, data for key variables were either incomplete or unavailable for many SME IPOs. Of the total 556 SME IPOs, 295 were issued on the BSE SME, and 261 were issued on the NSE EMERGE. The actual total number of SME IPOs issued during this period is 578. Due to the non-availability of certain key explanatory variables, the sample size had to be reduced to 556.

Dependent variable

The initial return of the SME IPO is employed as the dependent variable, and it is represented by two metrics: RR and MAR. RR is calculated as the difference between the offer price and the closing price of the security on the day of listing, and MAR is the difference between the

RR and market return on the day of listing. The following formula is used to compute RR and MAR:

$$\text{RR} = \frac{\text{Closing price on the listing day} - \text{Issue price}}{\text{Issue price}} \times 100$$

$$\text{MR} = \frac{\text{S\&P BSE SME IPO on the listing day} - \text{S\&P BSE SME IPO on the closing day}}{\text{S\&P BSE SME IPO on the closing day}} \times 100$$

$$\text{MAR} = \text{RR-MR}$$

Where RR is the raw return for the IPO, MR is the market return, and MAR is the market-adjusted return. The S&P BSE SME IPO index, which is the index of the BSE SME platform, is used as the proxy for the market.

Independent Variable

IS, computed by multiplying the offering price and the number of shares being offered, is taken as the independent variable in the study.

Control variables

In order to account for other variables that may have an effect on the IR, certain control variables based on the previous literature (Dhamija & Arora, 2017; Maheshwari & Kumar, 2022; Narayan Pandey et al., 2021) have been used for the study, such as the age of the firm, subscription times, and market condition (hot and cold market), in which market condition is a dummy variable. Firm Age is included because older firms typically have more operating history and public disclosure, reducing information asymmetry and perceived risk, which may lower the likelihood of underpricing. Subscription Times reflect investor demand during the IPO phase. Higher oversubscription levels often signal strong investor interest and may lead to greater listing day gains. Market Condition captures the broader sentiment prevailing at the time of the IPO. IPOs issued during periods of heightened activity (classified as “hot markets”) may benefit from increased investor enthusiasm and speculative interest, which can amplify listing day performance.

Table 2 gives a description of the variables used in the study.

Table 2. Variable Description

Variable	Description
Dependent Variable	
RR	Percentage Difference in the Closing price on the day of listing and Issue price.
MAR	The initial RR is adjusted to the market, i.e., the difference between RR and Market return.
Independent Variable	
IS	Log of the product of the issue price and the total number of shares offered.
Control Variables	

Age of the Firm	Log of the total number of years from the date of incorporation to the date of IPO.
ST	Log of the number of times the shares offered were subscribed by the investors.
MC	MC is classified as Hot and Cold market. IPOs issued in months with a higher monthly average number of IPOs are termed Hot Market, and IPOs made in months with a lesser monthly average number of IPOs are termed Cold Market. A Dummy Variable is used for the MC: 1 for the Hot market and 0 for the Cold market.

Source: The Authors

3.2 Influence of IS on RR and MAR

The influence of IS on RR and MAR was captured using Multivariate Cross-Sectional regression with the following equation:

$$IR_i = \beta_0 + \beta_1 IS_i + \beta_2 \text{Firm Age}_i + \beta_3 ST_i + \beta_4 MC_i + \epsilon$$

Where IR represents the returns achieved by the SME IPO on its listing day, quantified as RR and MAR. IS refers to the total monetary value of the SME IPO, computed by multiplying the total number of shares offered to the public by the SME and the offer price. Firm age denotes the number of years between the SME's incorporation and the year of its IPO. ST reflects the subscription times, measured as how many times the IPO was oversubscribed by investors. MC captures market sentiment at the time of the IPO launch, represented as a dummy variable: a value of 1 signifies a hot market (indicating high investor enthusiasm), while 0 denotes a cold market (indicating lower investor enthusiasm). ϵ represents the error term in the regression equation.

The choice of cross-sectional regression is driven by the nature of the dependent variables, which are measured only once for each IPO on the listing day. Since the focus is on explaining the variation in these returns across firms, rather than over time, a cross-sectional framework is best suited for this analysis.

4. Results and Discussion

Table 3 summarizes the descriptive statistics of the variables of the study. On average, the SME IPOs from Jan 2018 to March 2024 were underpriced at a rate of 26.78%. When adjusted to the market, the average underpricing rate is 25.63%. This means that despite market fluctuations, the SMEs offered strong listing day returns to the investors. A maximum of 343.33% RR suggests that some SME IPOs offered highly exceptional IR. The average IS of SME IPO is 20.97 crores, ranging from 1.12 crores to 189.5 crores. The IPOs were oversubscribed by 64.97 times on average. The SME IPOs were oversubscribed 64.97 times on average, indicating ample investor demand. However, the wide range from 0.07 times to 1052.45 times suggests that investor demand is not uniform across the SME IPOs. These SMEs had an average age of 12.59 years, which means that the SMEs had established themselves in the market for a reasonable period of time before going public.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
RR	556	-47.5	343.33	26.78	49.14
MAR	556	-96.74	337.37	25.63	49.52
IS	556	1.12	189.50	20.97	20.03
Age	556	1	68	12.59	9.04
ST	556	0.07	1052.45	64.97	133.39
Valid N (listwise)	556				

Source: The Authors

Table 4 and Figure 1 capture the year-wise descriptive statistics of SME IPOs in the sample from Jan 2018 to March 2024. The data reveals a clear upward trend in both the number of issues and the average IS of SME IPOs in India over the years. There is a notable decrease in the number of issues, average IS, and IR in the years 2020 and 2021, which is likely due to the Covid-19 impact. Keeping it aside, there is an upward trend of the IS over the years along with the IR (RR and MAR). This growth in IS appears to correlate with the substantial increase in both the average IR. From 3.71% in 2018 to 77.18% in 2024, it shows a roaring hike in the average RR.

Table 4. Year-wise Descriptive Statistics of IS and IR

Year	2018	2019	2020	2021	2022	2023	2024*
No. of Issues	90	50	28	52	105	178	53
Average IS	16.72	13.30	6.16	13.93	18.01	27.04	35.62
Average RR	3.71	2.32	0.93	10.08	31.27	36.60	77.18
Average MAR	5.41	5.56	2.05	3.92	29.65	34.02	76.56

* Data for 2024 is only up to March

Source: The Authors

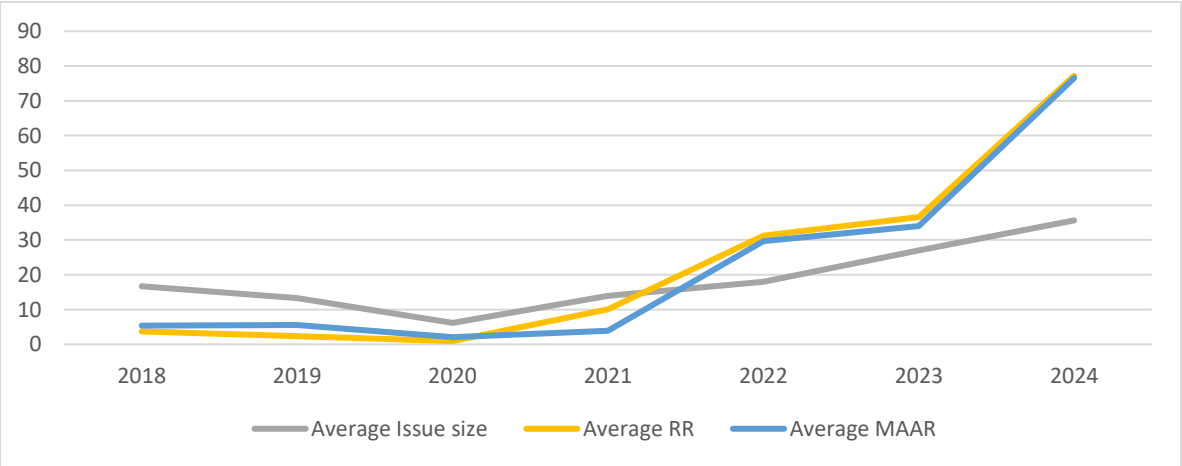

Figure 1. Year-wise IS and IR of SME IPOs

Source: Compiled by authors from the Official websites BSE SME and NSE Emerge

Table 5 gives a summary of sector-wise IS and returns of SME IPOs during the study period, classified according to the Global Industry Classification Standard (GICS). The SME IPOs across the 11 sectors cumulatively mobilized ₹ 11,660.3 crores. This level of mobilization underscores the vital role of SME exchanges like BSE SME and NSE EMERGE in bridging the financing gap for small and medium enterprises. Among the sectors, industrials dominate the SME IPO market with the highest number of IPOs (193) and the largest cumulative IS worth ₹ 3968.95 crores, with an average IS of ₹ 20.56 crores. On average, the SME IPOs in the industrial sector generated an RR of 32.32% and an MAR of 30.95%, marking the second-highest performance among the sectors. The utilities sector recorded the lowest number of SME IPOs (4), mobilizing ₹ 120.57 crores with an average IS of ₹ 30.14 crores. Despite its small representation, it generated notable average IR, with RR at 25.26 % and MAR at 21.71 %. However, the energy sector reported the lowest average IR of 4.07 % (RR) and -1.65% (MAR). The table highlights the diverse performance dynamics of SME IPOs across sectors.

The correlation among the variables of the study is shown in Table 6. The dependent variables RR and MAR have a strong and significant positive correlation of 0.97, indicating that the RR is moving with the market. The independent variable IS has a positive and significant correlation with both RR and MAR, suggesting that larger IPOs tend to be associated with high IR. The MC also has a positive correlation with RR and MAR, which means favorable MCs are associated with higher IR. Additionally, the positive and significant correlation between the IS and MC indicates that larger IPOs are more likely to occur during hot IPO markets. The age of the firm and ST do not have a significant correlation with the IR, suggesting that the age of the SME at the time of IPO and the number of times the SME IPO was subscribed do not influence the IR.

Table 5. Sector-wise summary of IS and IR of SME IPOs

Sector	No. of SME IPOs	Cumulative IS (₹ crores)	Average IS (₹ crores)	Average RR(₹ crores)	Average MAR (₹ crores)
Communication Services	31	876.24	28.26	54.15	51.69
Consumer Discretionary	104	1962.04	18.87	23.63	23.48
Consumer Staples	48	977.16	20.35	18.48	17.33
Energy	7	148.42	21.2	4.07	-1.655
Financials	8	150.79	18.84	22.38	21.58
Health Care	41	1121.9	27.96	22.64	22.09
Industrials	193	3968.95	20.56	32.32	30.95
Information Technology	45	837.01	18.6	27.32	26.42
Materials	59	1267.91	21.49	17.05	16.09
Real Estate	16	229.31	14.32	10.67	12.05
Utilities	4	120.57	30.14	25.56	21.71
Total	556	11660.3			

Source: Compiled by authors from the Official websites BSE SME and NSE Emerge

Table 6. Correlation Matrix

Variables	RR	MAR	IS	Age	ST	MC
RR	1	.977**	.110**	0.032	0.001	.194**
MAR	.977**	1	.102*	0.036	0.006	.165**
IS	.110**	.102*	1	.151**	-0.054	.246**
Age	0.032	0.036	.151**	1	-0.003	0.04
ST	0.001	0.006	-0.054	-0.003	1	-0.058
MC	.194**	.165**	.246**	0.04	-0.058	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Source: The Authors

Multivariate analyses

Table 7 reports the regression results of RR and MAR on the day of listing as dependent variables, IS as independent variable, and age of the firm, ST, and MC as control variables. The models were tested to ensure they were free of multicollinearity, heteroscedasticity, and autocorrelation issues among the residuals. The result indicates that the IS and MC have a positive and substantial impact on the IR of the IPO. Alternatively, the firm's age and ST do not have a substantial impact on the IR. However, the F-statistic values for both RR and MAR are significant at a 1 % level, indicating that the regression models are highly significant. It is noted that the adjusted R-squared values in both models are relatively low (0.04 for RR and 0.03 for MAR), indicating modest explanatory power. However, this is consistent with the broader IPO literature, where low R^2 values are commonly observed due to the inherent volatility and unpredictability of IPO returns. Initial returns are often influenced by non-quantifiable factors such as speculative interest, media hype, and broader market psychology. As highlighted by studies like (Allen & Faulhaber, 1989; Ibbotson et al., 1994; Ritter, 1991) low R^2 does not undermine the validity of the results in IPO research. What is more important is the statistical and theoretical significance of the independent variables, and in this study, IS and MC are found to be significantly associated with IR, thereby supporting the hypotheses and theoretical framework of the research.

Table 7. Regression results

Variable	RR	Std. Error	t-statistic	Prob.	MAR	Std. Error	t-statistic	Prob.
C	47.11	7.77	6.06	0.00	97.03	7.87	12.32	0.00
IS	5.26	2.30	2.29	0.02	5.44	2.33	2.34	0.02
Age	0.96	2.30	0.42	0.68	1.04	2.33	0.44	0.66
ST	0.08	1.01	0.08	0.94	-0.05	1.03	-0.05	0.96
MC	17.20	4.71	3.65	0.00	14.09	4.77	2.95	0.00
R-squared	0.05				0.04			

Adjusted R-squared	0.04	0.03
F-statistic	6.96	5.50
Prob (F-statistic)	0.00	0.00

It is clear that the IS is substantially and positively connected to both RR and MAR, indicating that the bigger the SME IPO size, the greater the IR. It shows that the IS and IR are unidirectional. This means that investors are attracted to larger IPOs, which often perform better on the day of listing. Smaller IPOs may not attract as much attention, leading to lower IR. Thus, the alternative hypothesis (H1), which states that IS has a significant impact on the IR of SME IPOs, is accepted. SME IPOs that are larger in terms of size tend to have higher IR. (Dhamija & Arora, 2017) reported that there is a significant positive connection between the size of the IPOs and the IR. (Shah, 1995) also reported a greater underpricing in IPOs that are bigger in terms of size. However, (Singh Matharu, 2021) has found a significant negative connection between the IS and the IR. They found that smaller IPOs generate higher IR, as larger IPOs have more coverage and undergo more scrutiny by analysts. Our finding on the IS aligns with (Dhamija & Arora, 2017; Shah, 1995).

The positive and significant relation of RR and MAR with MCs suggests that during a hot market, i.e., when the investor demand in the IPO market is high, the IR on IPOs is substantially higher when compared to a cold market. This emphasizes the significance of market timing in the success of IPOs. This finding is supported by the window of opportunity hypothesis (Ritter, 1991), which says that firms strategically go public during favorable MCs to maximize their IR. (Narayan Pandey et al., 2021) also found MC as a significant variable and reported that IPOs issued during hot markets have greater IR. However, (Dhamija & Arora, 2017) found that there is no statistical difference in IR in the hot and cold markets.

While the age of the firm is positively related to RR and MAR, oversubscription is positively related only to RR, not MAR. However, neither the age of the firm nor oversubscription has a statistically significant connection with both RR and MAR.

5. Conclusion

The study provides valuable insights into how the size of SME IPOs influences their initial returns in India, contributing to the growing body of literature on IPO underpricing. By examining 556 SME IPOs that went public between January 2018 and March 2024, the findings emphasize the significant role that IS plays in determining the initial market performance of these IPOs. The results reveal a significant positive impact of the SME IPO size on the IR measured in terms of raw returns and market-adjusted returns. This, in turn, suggests that larger SME IPOs are more likely to generate higher IR, likely due to investors' confidence in large IPOs and the signaling effect of large IPOs indicating the firm's quality. In this context, IS serves as a signaling mechanism, where SMEs with larger ISs are seen as more credible and high-quality firms. This greater confidence leads to stronger investor demand, resulting in higher IR. In contrast, smaller IPOs often lead to lower IR, possibly due to limited investor interest and perceived higher risks associated with smaller offerings. Smaller companies are perceived as higher risk due to their relatively smaller scale, which can result in less interest

from investors. Consequently, smaller IPOs are less likely to generate the same level of market excitement as larger IPOs.

In addition to IS, the study highlights the significant influence of MCs on SME IPO performance. MC was also found to have a significant impact, suggesting that IPOs launched during the hot market period exhibit higher IR. This underscores the importance of market sentiment in shaping IPO pricing and performance. When investors are more willing to take risks, it leads to higher demand for IPOs and, consequently, higher IR.

On the other hand, the IR was not significantly influenced by the firm's age and oversubscription of SME IPOs. While older firms may typically show more stability and lower perceived risks, this study did not find a substantial connection between the age of the firm and the IR on their IPOs. Similarly, the level of oversubscription, which reflects the demand for the IPO, did not appear to significantly influence IR in the context of SME IPOs.

These findings contribute to the understanding of the underpricing of IPOs in the Indian SME sector, highlighting that IPOs that are larger in terms of IS can be associated with greater market success on the day of listing. In conclusion, the study underscores the importance of issue size as a key determinant of initial returns in SME IPOs, supporting the view that larger IPOs, especially in hot market conditions, yield greater returns to investors, thus influencing the pricing and performance of SMEs in the IPO market.

This study is subject to certain limitations. First, the analysis primarily focuses on financial and market variables, without incorporating sectoral differences, which may influence IPO performance. Future research could explore how different industries within the SME segment experience varying IPO dynamics. Additionally, this study does not consider behavioral factors such as investor sentiment and market psychology, which can play a crucial role in IPO pricing and performance. Subsequent studies could integrate these behavioral aspects to provide a more comprehensive understanding of SME IPO outcomes. Expanding the timeframe and including a comparative analysis with mainboard IPOs could also enrich insights.

However, enhanced disclosure norms or due diligence support could also be introduced for smaller IPOs to improve transparency and attract investor interest. Additionally, the creation of sentiment indicators or IPO timing dashboards could help SMEs optimize listing decisions during favorable market conditions, thereby promoting a healthier and more efficient SME capital market ecosystem. Given the limited public availability and inconsistency of SME data, regulators should also work toward establishing a centralized and accessible SME IPO database to support informed decision-making by researchers, investors, and policy institutions.

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