

Investment Decision Behavior of Indian Retail Investors with Respect to IPOs

Dr. Ajay Verma¹, Dr. Sudhir Yadav²

¹Associate Professor, Department of Management Studies, Swami Keshvanand Institute of Technology,
Management & Gramothan (SKIT), Jaipur (Rajasthan),

²Assistant Professor, Department of EAFM, L.B.S. Govt. College, Kotputli (Rajasthan)

Abstract

Retail investors consider time horizon, liquidity, risk, and return while making investing decisions in IPOs in order to achieve their financial goals. But limited financial literacy, information overload, emotional decision-making, lack of diversification, high transaction costs, and regulatory complexity are some of the difficulties Indian ordinary investors face while investing in IPO. Examining the variables influencing Indian retail investors' investment choices and decision-making procedures in IPOs is the primary purpose of this research. The researcher collected data from primary sources. The data was collected from 92 investors using a random sample method. The stated hypotheses were assessed at the 0.05 level of significance using the ANOVA test. Various aspects of IPOs, such as brand, profitability, financial standing, product offerings, size, industry track record, price bands, promoter track record, and risks, play an important role in forming investor perceptions on the basis of occupation. The result also states that there are significant differences in means of various groups of respondents on the basis of annual savings observed for the brand and reputation of the IPO-issuing company, while for other factors, there are no significant differences in means.

Key Words: Investment Decision, Initial Public Offerings, Indian Retail Investors, Investment behaviour

1. INTRODUCTION

Initial public offerings (IPOs) have been crucial in raising finance for business expansion, and the Indian capital market has grown significantly in the last few years. A substantial portion of the Indian stock market, retail investors frequently struggle to make well-informed investing choices, especially in the case of IPOs.

The process of evaluating and selecting investment options to meet financial objectives while taking time horizon, liquidity, risk, and return into account is known as an investment decision. It primarily entails determining the goals of investments (such as generating income or wealth), evaluating investment options, assessing risk tolerance and capacity, analyzing market trends, economic conditions, and industry performance, taking diversification and asset allocation into consideration, managing potential returns against risks, choosing investment instruments, and tracking and modifying the investment portfolio. Financial objectives, risk tolerance, investment horizon, liquidity requirements, market conditions, economic indicators, tax consequences, and individual values and preferences are some of the factors that affect investing decisions. When making investment decisions, one must consider behavioral biases, emotional and psychological aspects, professional assistance, and logical analysis (such as financial models and data analysis). Achieving financial success and ensuring long-term financial well-being require an understanding of investing decisions.

The term investment decision behavior describes the social, emotional, and cognitive factors that affect a person's or an organization's investment decisions. Information processing (collecting, evaluating, and interpreting investment data), risk perception (evaluating possible risks and rewards), and decision-making styles (intuitive,

analytical, or mixture) are all included in this cognitive domain. Emotional factors such as risk tolerance, loss aversion, emotional bias, and overconfidence can influence how people make investment decisions. Social factors such as Social influence: the effects of other people's beliefs and life experiences; authoritative bias is the tendency to trust experts or authoritative people, while herd behavior is the tendency to follow the herd's investment choices. Demographics, personality attributes (such as optimism and risk tolerance), financial literacy, investment experience, market conditions, and the economic environment are the key factors influencing investment decision behavior. Enhancing financial literacy, reducing behavioral biases, improving investment judgments, developing successful investment strategies, and optimizing portfolio performance are all made possible by an understanding of investment decision behavior. Psychology, economics, finance, and behavioral science are all incorporated within the multidisciplinary field of investment decision behavior.

Individuals who participate in Indian financial markets, including stocks, bonds, mutual funds, and other securities, are known as retail investors. Typically, their lack of affiliation with large businesses or financial institutions distinguishes them as non-institutional investors. Usually, Indian retail investors make fewer investments than institutional investors. They might not have professional investment knowledge. They might not be very financially literate and frequently rely on their own research, recommendations from friends and family, or financial experts. Indian retail investors' preferred investment options include stocks, mutual funds, fixed-income securities (bonds, debentures), real estate, jewelry, gold, and insurance products. Limited financial literacy, information overload, emotional decision-making, lack of diversification, high transaction costs, and regulatory complexity are some of the difficulties Indian ordinary investors face. Policymakers, financial institutions, and market players must have a thorough understanding of Indian retail investors in order to create policies that effectively advance financial inclusion, enhance investor education, and boost market efficiency. An IPO is the process by which a privately held company goes public by first making its stocks available to the general public. It enables the business to raise money, improve visibility, and give current owners liquidity. Examining the variables influencing Indian retail investors' investment choices and decision-making procedures in IPOs is the primary purpose of this research.

2. REVIEW OF LITERATURE

Karki et al. (2024) examined that a number of factors significantly influence Nepalese investors' choices to participate in IPOs, including sector performance, market rumours, short-term returns, corporate profile, financial condition, and IPO size. When making judgements about IPO investments, investors give priority to the company's financial standing, short-term rewards, and corporate profile.

Mahapatra & Das (2023) studied the conduct of investors and the approval of the industrial houses' initial public offer. Research takes into account the growing factors of investing in equity funds through IPOs over time. The performance of these equity shares in the past is unknown in the event of an IPO, and their future is contingent on the project's success. The likelihood of small investors being allocated to new issues from established corporate houses is quite low because the premium rate is very high, the listing price is highly unknown, and the issue is frequently oversubscribed. In a similar vein, new projects from less well-known or new corporate houses have undersubscribed initial public offerings (IPOs).

Mathew and Kumar (2022) investigated the elements influencing individual investors' stock preferences and aims to identify the pertinent elements impacting their investing choices. In the context of the Indian stock market, a study was made to determine how these affect their socioeconomic characteristics. The findings show that the three main aspects that individual investors take into account when making investing decisions are return, risk, and historical stock performance.

Puja Tamang (2022) examined the behavior of Nepalese investors when making decisions about their investments in initial public offerings (IPOs). According to the research, investors are influenced by overconfidence bias because they overestimate their investment abilities, instead of psychological prejudices as they don't "herd" the data.

Saivasan & Lokhande (2022) studied the connection and impact of demographic characteristics on behavioural bias and risk propensity. Demographic factors have a significant impact on the risk propensity construct, which is characterized by gain expectation, time span, and loss avoidance. Comfort, optimism, anchoring, and experiencing biases are characteristics of the behavioural bias construct that differ among groups of people. These elements affect a person's perception of risk when it comes to stock investments.

Hossain & Siddiqua (2022) concluded that the two factors that have the biggest influence on the decision-making of individual investors are risk perception and loss aversion. Herding and overconfidence, the other two biases, have less of an effect. The majorities of investors are risk-averse and favor investments in reputable businesses that consistently turn a profit.

Kasoga & Tegambwage (2022) explored that there are considerable and positive relationships between financial management behavior and investment decisions and self-control, optimism, and deliberate thinking. The results also validated the function that financial management practices play as a mediator between Tanzanian individual investors' investment decisions and their self-control, optimism, and critical thinking. Good self-control, optimism, and thoughtful thinking are traits that make people more inclined to save money, manage their finances better, and choose to invest.

Gnawali and Niroula (2021) revealed in their study that quality management, corporate goodwill, company performance, company sector, and market knowledge are all important considerations when investing in an IPO.

Dasgupta & Chattopadhyay (2020) indicated that retail investors are greatly and favorably impacted by IPO concerns, information certainty, trading volume and velocity, and institutional investors' investment activity. The researcher also came to the conclusion that Indian retail investors are primarily motivated by the certainty of information regarding IPO difficulties and related pricing procedures. The study's findings indicate that while investors' employment position has a positive impact, their investment habits and monthly return on investment have a negative impact on retail investors' overall opinion regarding investing in the Indian stock market.

Raheja and Dhiman (2020) found a significant relationship between the speculators' venture selections and the financial specialists' conduct predispositions, as well as a positive correlation between the financial specialists' enthusiastic insight and their venture choices.

OBJECTIVES OF THE STUDY

1. To evaluate the investment criteria for investing in IPOs.
2. To identify key factors affecting Indian retail investors' investment decisions in IPOs.
3. To analyze the factors affecting retail investors' investment decisions towards IPOs.
4. To analyze the impact of demographic and psychological factors on IPO investment decisions.

HYPOTHESIS

H₁: The occupation of investors and the factors that affect their investment decisions differ significantly.

H₂: The income of investors and the factors that affect their investment decisions differ significantly.

H₃: The saving of investors and the factors that affect their investment decisions differ significantly.

3. RESEARCH METHODOLOGY

The researcher gathered data from first-hand sources. A structured questionnaire was delivered using Google Forms. The data were gathered from 92 investors using a random sampling procedure. This questionnaire collected data on a five-point Likert scale ranging from strongly agree (5) to strongly disagree (1). The acquired data was analysed using the statistical program SPSS V22. Descriptive statistics such as frequency counts and percentages were used to assess demographic data and research questions, while inferential statistics such as ANOVA were employed to test the hypotheses at the 0.05 level of significance.

4. DATA ANALYSIS & INTERPRETATION

Table 1. Presentation of Demographic Data

	Background	Frequency	Percentage (%)
Gender	Male	63	68.5
	Female	29	31.5
Marital Status	Married	62	67.4
	Unmarried	30	32.6
Occupation	Salaried	32	34.8
	Self Employed	38	41.3
	Business	13	14.1
	Others	9	9.8
Age of Respondent	18 to 30 Years	9	9.8
	31 to 40 Years	48	52.2
	41 to 50 Years	28	30.4
	Above 50 Years	7	7.6
Qualification	Undergraduate	10	10.9
	Graduate	42	45.7
	Postgraduate	22	23.9
	Professional	18	19.6
Residential Status	Urban	36	39.1
	Semi-Urban	39	42.4
	Rural	17	18.5
Annual Income of Respondent	Below Rs. 2.5 lakh	7	7.6
	Rs. 2.5 lakh – Rs. 5 lakh	30	32.6
	Rs. 5 lakh – Rs. 10 lakh	39	42.4
	Above Rs. 10 lakh	16	17.4
Annual Savings of Respondents	Below Rs. 50 thousand	26	28.3
	Rs. 50 thousand - Rs. 1 lakh	38	41.3
	Rs. 1 lakh - Rs. 3 lakh	18	19.6
	Above Rs. 3 lakh	10	10.9
Investment amount in an IPO	Below Rs. 15 thousand	52	56.5
	Rs. 15-50 thousand	29	31.5
	Rs. 50 thousand - Rs. 1 lakh	7	7.6
	Above Rs. 1 lakh	4	4.3

The demographic and financial profile of the respondents reveals insightful trends about their investment behaviors and financial status. Predominantly male (68.5%), the sample shows a significant gender disparity, highlighting a potential area for further research into the barriers women face in financial markets. The majority

of respondents are married (67.4%), suggesting that marital status, which can influence financial decisions and risk tolerance, is an important factor in this population. In terms of occupation, the largest group is self-employed individuals (41.3%), followed by salaried employees (34.8%). This distribution suggests diverse income sources and potentially varied financial strategies, with self-employed individuals possibly exhibiting different risk profiles due to their variable income levels. The age distribution indicates that over half of the respondents (52.2%) are aged 31 to 40 years, reflecting a middle-aged demographic likely at a peak earning stage and actively planning for future financial stability. The educational background of the respondents is relatively high, with nearly half being graduates (45.7%). This suggests a good level of financial literacy, which may correlate with more sophisticated investment strategies. Additionally, the presence of postgraduates (23.9%) and professionals (19.6%) further emphasizes a well-educated sample. Residential status data shows that the highest proportion of respondents live in semi-urban areas (42.4%), followed by urban areas (39.1%). This distribution can influence access to financial services and investment opportunities, with rural respondents (18.5%) potentially facing more limitations, reflecting disparities in financial inclusion. Income levels indicate that the majority of respondents come within the Rs. 5 lakh to Rs. 10 lakh (42.4%), signifying a middle-income segment likely focused on wealth accumulation and future growth. Savings patterns reveal that a significant portion save between Rs. 50 thousand to Rs. 1 lakh annually (41.3%), reflecting moderate saving habits. Investment behaviors in IPOs show that over half of the respondents (56.5%) invest below Rs. 15 thousand, indicating a cautious approach towards high-risk investments or limited disposable income. As the investment amount increases, the number of respondents decreases, with only 4.3% investing above Rs. 1 lakh.

Table 2. Reliability Statistics

Cronbach's Alpha	N of Items
.958	12

The above table illustrates the Cronbach's Alpha test of the variables' reliability. According to Cronbach's Alpha, if the value is higher than 0.60, the variable's reliability is positive. All of the variables have a high degree of reliability because the result is 0.958, which is greater than 0.60.

H₁: The occupation of investors and the factors that affect their investment decisions differ significantly.

Table 3. ANOVA (Occupation)

		Sum of Squares	df	Mean Square	F	Sig.
Brand and reputation	Between Groups	30.863	3	10.288	8.887	.000
	Within Groups	101.865	88	1.158		
	Total	132.728	91			
Corporate profile	Between Groups	17.333	3	5.778	7.723	.000
	Within Groups	65.830	88	.748		
	Total	83.163	91			
Profitability	Between Groups	22.778	3	7.593	5.856	.001
	Within Groups	114.091	88	1.296		
	Total	136.870	91			
Financial standing	Between Groups	23.978	3	7.993	8.882	.000
	Within Groups	79.185	88	.900		
	Total	103.163	91			
Range of goods and services provided	Between Groups	20.603	3	6.868	5.723	.001

Size of IPO	Within Groups	105.604	88	1.200		
	Total	126.207	91			
	Between Groups	12.636	3	4.212	5.863	.001
Industry track records	Within Groups	63.223	88	.718		
	Total	75.859	91			
	Between Groups	17.844	3	5.948	6.551	.000
Potential short-term return	Within Groups	79.895	88	.908		
	Total	97.739	91			
	Between Groups	5.843	3	1.948	2.179	.096
Lack of other attractive investment opportunities	Within Groups	78.636	88	.894		
	Total	84.478	91			
	Between Groups	7.429	3	2.476	2.514	.064
Price bands for the issues	Within Groups	86.690	88	.985		
	Total	94.120	91			
	Between Groups	16.195	3	5.398	6.510	.000
Promoter's track record	Within Groups	72.968	88	.829		
	Total	89.163	91			
	Between Groups	11.577	3	3.859	3.832	.012
Risks and Concerns associated to the IPO	Within Groups	88.630	88	1.007		
	Total	100.207	91			
	Between Groups	17.382	3	5.794	5.539	.002
	Within Groups	92.052	88	1.046		
	Total	109.435	91			

The occupation of investors and the factors influencing their investment decisions were examined here by using one way ANOVA test. This table appears to present the results of an analysis of variance (ANOVA) for various factors related to initial public offerings (IPOs).

The between-groups variation (30.863) is statistically significant ($p < .001$), indicating that there are significant differences in perceptions of brand and reputation across different IPO-issuing companies. The F-value (8.887) is high, suggesting that the differences between groups are larger than what would be expected by chance. Similar to the brand and reputation factor, there are significant differences in perceptions of corporate profiles among different IPO-issuing companies ($p < .001$). The F-value (7.723) is high, indicating substantial variability between groups. There are significant differences in perceptions of profitability across different IPO-issuing companies ($p = .001$). The F-value (5.856) suggests that these differences are not likely due to random chance. Significant differences exist in perceptions of financial standing among different IPO-issuing companies ($p < .001$). The F-value (8.882) is high, indicating notable variation between groups. There are significant differences in perceptions of product and service offerings among different IPO-issuing companies ($p = .001$). The F-value (5.723) suggests substantial variability between groups. Significant differences exist in perceptions of IPO size among different IPO-issuing companies ($p = .001$). The F-value (5.863) indicates notable variation between groups. Significant differences exist in perceptions of industry track records among different IPO-issuing companies ($p < .001$). The F-value (6.551) suggests substantial variability between groups. Differences in perceptions of short-term returns among different IPO-issuing companies are not statistically significant ($p = .096$). Differences in perceptions of investment opportunities among different IPO-issuing companies are marginally significant ($p = .064$). Significant differences exist in perceptions of price bands among different IPO-issuing companies ($p < .001$). The F-value (6.510) indicates notable variation between groups. Significant differences exist in perceptions of promoter track records among different IPO-issuing companies ($p = .012$). The F-value (3.832) suggests notable

variability between groups. Significant differences exist in perceptions of risks and concerns among different IPO-issuing companies ($p = .002$). The F-value (5.539) indicates substantial variability between groups.

In summary, most factors related to IPOs show significant differences in perceptions among different IPO-issuing companies, except for potential short-term return and lack of other attractive investment opportunities, which show no or marginal significance. These results suggest that various aspects of IPOs, such as brand, profitability, financial standing, product offerings, size, industry track record, price bands, promoter track record, and risks, play a significant role in shaping investor perceptions.

H₂: The income of investors and the factors that affect their investment decisions differ significantly.

Table 4. ANOVA (Income)

Factors		Sum of Squares	df	Mean Square	F	Sig.
Brand and reputation	Between Groups	19.311	3	6.437	4.994	.003
	Within Groups	113.418	88	1.289		
	Total	132.728	91			
Corporate profile	Between Groups	9.669	3	3.223	3.859	.012
	Within Groups	73.494	88	.835		
	Total	83.163	91			
Profitability	Between Groups	7.773	3	2.591	1.766	.159
	Within Groups	129.096	88	1.467		
	Total	136.870	91			
Financial standing	Between Groups	9.158	3	3.053	2.858	.042
	Within Groups	94.005	88	1.068		
	Total	103.163	91			
Nature and type of products and services offered	Between Groups	4.988	3	1.663	1.207	.312
	Within Groups	121.218	88	1.377		
	Total	126.207	91			
Size of IPO	Between Groups	4.931	3	1.644	2.039	.114
	Within Groups	70.928	88	.806		
	Total	75.859	91			
Industry track records	Between Groups	7.349	3	2.450	2.385	.075
	Within Groups	90.390	88	1.027		
	Total	97.739	91			
Potential short-term return	Between Groups	6.286	3	2.095	2.358	.077
	Within Groups	78.192	88	.889		
	Total	84.478	91			
Lack of other attractive investment opportunities	Between Groups	1.914	3	.638	.609	.611
	Within Groups	92.205	88	1.048		
	Total	94.120	91			
Price bands for the issues	Between Groups	10.709	3	3.570	4.004	.010
	Within Groups	78.454	88	.892		
	Total	89.163	91			
Promoter's track record	Between Groups	7.014	3	2.338	2.208	.093
	Within Groups	93.192	88	1.059		
	Total	100.207	91			

Risks and Concerns associated to the IPO	Between Groups	2.858	3	.953	.787	.504
	Within Groups	106.576	88	1.211		
	Total	109.435	91			

The F-statistic of 4.994 with a $p = 0.003$ indicates that there is a statistically substantial disparity in the means of the brand and reputation of the IPO-issuing company across the different income groups. The $F = 3.859$ with a $p = 0.012$ shows that there is a statistically substantial disparity in the means of the corporate profiles of the IPO-issuing company. $F = 1.766$ with $p = 0.159$ implies that there is no statistically substantial disparity in the means of profitability among the different groups. $F = 2.858$ and $P = 0.042$ indicate that there is a statistically substantial disparity in the means based on the current financial standing. $F = 1.207$ and $P = 0.312$ show that there is no statistically substantial disparity in the means among the different groups. $F = 2.039$ and $P = 0.114$ indicate that there is no statistically substantial disparity in the means based on the size of the IPO. $F = 2.385$ and $p = 0.075$ implies that there is a marginally substantial disparity in the means based on the industry track records. $F = 2.358$ and $p = 0.077$ show that there is a marginally substantial disparity in the means based on the potential short-term return. $F = 0.609$ and $p = 0.611$ show that there is no statistically substantial disparity in the means among the different groups. $F = 4.004$ and $p = 0.010$ implies that there is a statistically substantial disparity in the means based on the price bands for the issues. $F = 2.208$ and $p = 0.093$ indicate that there is a marginally substantial disparity in the means based on the promoter's track record. $F = 0.787$ and $p = 0.504$ show that there is no statistically substantial disparity in the means among the different groups regarding risks and concerns associated with the IPO.

H₃: The saving of investors and the factors that affect their investment decisions differ significantly.

Table 5. ANOVA (Saving)

		Sum of Squares	df	Mean Square	F	Sig.
Brand and reputation	Between Groups	14.083	3	4.694	3.482	.019
	Within Groups	118.645	88	1.348		
	Total	132.728	91			
Corporate profile	Between Groups	6.284	3	2.095	2.398	.073
	Within Groups	76.879	88	.874		
	Total	83.163	91			
Profitability	Between Groups	5.272	3	1.757	1.175	.324
	Within Groups	131.597	88	1.495		
	Total	136.870	91			
Financial standing	Between Groups	4.378	3	1.459	1.300	.280
	Within Groups	98.785	88	1.123		
	Total	103.163	91			
Range of goods and services offered	Between Groups	3.583	3	1.194	.857	.467
	Within Groups	122.624	88	1.393		
	Total	126.207	91			
Size of IPO	Between Groups	.763	3	.254	.298	.827
	Within Groups	75.096	88	.853		
	Total	75.859	91			
Industry track records	Between Groups	3.899	3	1.300	1.219	.308
	Within Groups	93.840	88	1.066		
	Total	97.739	91			

Potential short-term return	Between Groups	3.038	3	1.013	1.094	.356
	Within Groups	81.440	88	.925		
	Total	84.478	91			
Lack of other attractive investment opportunities	Between Groups	2.261	3	.754	.722	.542
	Within Groups	91.859	88	1.044		
	Total	94.120	91			
Price bands for the issues	Between Groups	6.514	3	2.171	2.312	.082
	Within Groups	82.649	88	.939		
	Total	89.163	91			
Promoter's track record	Between Groups	3.282	3	1.094	.993	.400
	Within Groups	96.925	88	1.101		
	Total	100.207	91			
Risks and Concerns associated to the IPO	Between Groups	2.971	3	.990	.818	.487
	Within Groups	106.464	88	1.210		
	Total	109.435	91			

$F = 3.482$ and $p = 0.019$ since the p -value is less than 0.05; we reject the null hypothesis and conclude that there is a substantial disparity in means between different levels of brand and reputation. $F = 2.398$ and $p = 0.073$, with a p -value slightly above 0.05, there is a weak indication of a substantial disparity in means between different corporate profiles. $P = 0.324$, indicating no substantial disparity in means based on profitability of the IPO-issuing company. $P = 0.280$, indicating no substantial disparity in means based on the current financial standing of the IPO-issuing company. $P = 0.467$, indicating no substantial disparity in means based on the range of goods and services provided by the IPO-offering company. $P = 0.827$, indicating no substantial disparity in means based on the size of the IPO. $P = 0.308$, indicating no substantial disparity in means based on industry track records of the IPO-issuing company. $P = 0.356$, indicating no substantial disparity in means based on the expected short-term gains from the IPO. $P = 0.542$, indicating no substantial disparity in means based on the shortage of other attractive investment avenues other than IPOs. $P = 0.082$, which is slightly above 0.05. This suggests a weak indication of a substantial disparity in means based on price bands for the issues. $P = 0.400$, indicating no substantial disparity in means based on the promoter's track record. $P = 0.487$, indicating no substantial disparity in means based on risks and concerns associated with the IPO.

In summary, substantial disparity in means is observed for the brand and reputation of the IPO-issuing company, while for other factors, there is no substantial disparity in means except for a weak indication for corporate profile and price bands.

5. FINDINGS

The study 'Investment decision behavior of Indian retail investors with respect to IPOs' focused on various demographic and psychological factors that affect the investment-making behavior of retail investors. In this study occupation, income of respondents and savings of individuals are taken for further analyze the factors that influence retail investors investment making behavior namely brand and reputation of the IPO- offering company, profile of the IPO-offering company, profitability of the IPO- offering company, recent financial standing of the IPO- offering company, range of goods and services provided by the IPO- offering company, size of the company's IPO, industry track records of the IPO- offering company, expected short-term gains from the IPO, shortage of other attractive investment avenues other than IPOs, price bands for the issues, promoter's track record, risks and concerns associated to the IPO.

6. CONCLUSION

This study discovered substantial connections between many aspects and individuals' investing decisions in IPOs. Socio-economic variables of investors, such as gender, marital status, age, income, occupation, residential status, annual saving and investment amount in IPO, also determine their preferences, and there is a significant relationship between such variables and factors affecting investment decisions.

Most factors related to IPOs show significant differences in perceptions among different occupational groups of respondents, except for potential short-term return and lack of other attractive investment opportunities, which show no or marginal significance. These results suggest that various aspects of IPOs, such as brand, profitability, financial standing, product offerings, size, industry track record, price bands, promoter track record, and risks, determine a significant role in forming investor perceptions on the basis of occupation. Substantial differences in means of various groups of respondents on the basis of annual income are observed for the brand and reputation of the IPO-offering company, corporate profile, current financial standing, Price bands for the issues, while for other factors, there are no significant differences in means. Significant differences in means of various groups of respondents on the basis of annual saving are observed for the brand and reputation of the IPO-offering company, while for other factors, there are no significant differences in means.

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