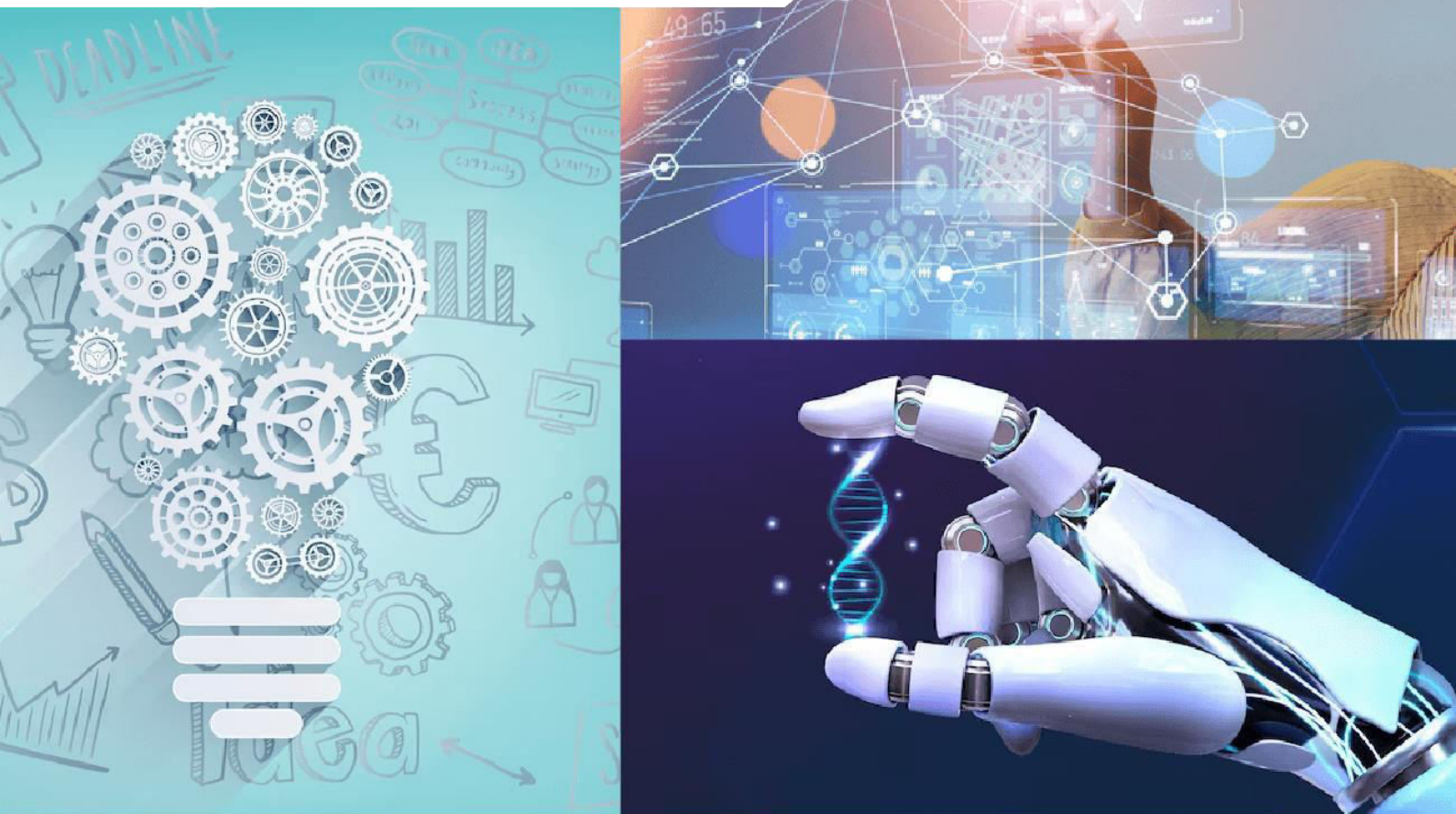




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A Study on Retail Investor Sentiment and the Rise of SME IPOs in India

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ABSTRACT: This study looks at how retail investor sentiment impacts the rapid growth of Small and Medium Enterprise Initial Public Offerings (SME IPOs) in India. In recent years, the SME IPO segment has seen remarkable retail oversubscription, strong listing gains, and increased speculative interest, especially in the digital investment environment after COVID-19. Traditional finance theory suggests that investment decisions should rely on a thorough evaluation of firm fundamentals. However, the recent rise in SME IPO participation shows the growing impact of behavioural and market sentiment factors.

The study uses a mixed-method approach by integrating primary behavioural survey data with market-oriented sentiment concepts. Researchers collected data from 108 retail investors using a structured questionnaire. They analysed the responses with descriptive statistics, reliability testing, and Exploratory Factor Analysis (EFA). The reliability coefficient using Cronbach's alpha was 0.638, indicating acceptable internal consistency for behavioural finance research. The EFA results revealed a dominant single-factor construct labelled Market Sentiment Confidence, supported by a Kaiser-Meyer-Olkin (KMO) value of 0.676 and a statistically significant Bartlett's Test of Sphericity.

The findings show that retail investors are greatly influenced by high subscription confidence, positive market trends, recent IPO success stories, grey market premium expectations, and shared optimism. Behavioural factors like herd behaviour, fear of missing out (FOMO), social proof, and recency bias significantly shape subscription intentions. The study concludes that the growth of SME IPOs in India is increasingly driven by sentiment rather than just financial fundamentals. This paper adds to behavioural finance literature by providing primary evidence about the psychological factors behind retail oversubscription in the SME IPO segment.

KEYWORDS: SME IPOs, Retail Investor Sentiment, Behavioural Finance, Herd Behaviour, Grey Market Premium

I. INTRODUCTION

The Indian capital market has changed significantly over the past decade, especially after the COVID-19 pandemic. Digital brokerage platforms, mobile investment apps, UPI-enabled IPO subscriptions, financial content on social media and increased involvement from first-time investors have transformed how people engage with capital markets. One noticeable result of this shift is the rapid increase in Initial Public Offerings (IPOs), particularly within the Small and Medium Enterprise (SME) segment.

SME IPOs have become an important funding source for growth-oriented companies that don't meet the size and eligibility criteria for mainboard listings. Platforms like NSE Emerge and BSE SME allow smaller firms to access public capital while giving retail investors high-growth opportunities. However, unlike mainboard IPOs, SME IPOs often involve smaller issue sizes, lower liquidity, less analyst coverage, and greater uncertainty.

Despite these risks, recent years have seen exceptional retail oversubscription in SME IPOs. Many offerings have been oversubscribed hundreds of times, frequently outpacing demand for mainboard IPOs. This trend raises important questions: why do retail investors aggressively subscribe to these relatively risky SME offerings?

Traditional financial theory, especially the Efficient Market Hypothesis (EMH), assumes investors process all information rationally and invest based on fundamentals like earnings potential, business strength, and industry prospects. However, the extreme oversubscription in SME IPOs suggests that retail decisions may be affected by factors beyond fundamentals.

Behavioural finance offers valuable insights into this issue. Investors may use mental shortcuts, copy peers, react strongly to recent gains, and use Grey Market Premium (GMP) as a psychological benchmark. The rise of online investor groups, Telegram chats, YouTube IPO reviews, and broker recommendations further enhances collective optimism and social influence.

This paper aims to analyse how retail investor sentiment affects the growth of SME IPOs in India. By combining primary survey data with behavioural finance theory, the study seeks to clarify whether subscription enthusiasm is based on rational analysis or driven by psychological factors.

Problem Context and Relevance

The rising frequency of oversubscription in SME IPOs raises crucial questions about pricing efficiency, market sustainability, investor protection, and post-listing volatility. If demand largely comes from sentiment, then short-term listing gains may not truly reflect intrinsic value. This creates opportunities for wealth transfer for informed participants while putting inexperienced retail investors at risk.

Understanding these dynamics is highly relevant for regulators, merchant bankers, issuers, brokers, and policymakers aiming to ensure sustainable growth of the SME capital market ecosystem.

Research Objectives

This study aims to achieve the following goals:

- Evaluate the role of retail sentiment in SME IPO participation.
- Examine how behavioural biases affect subscription intentions.
- Identify underlying sentiment constructs through factor analysis.
- Interpret the impact of GMP, recent listing gains, and shared optimism.
- Assess implications for behavioural finance theory and market regulation.

II. LITERATURE REVIEW

Existing studies focusing on the Indian market find that retail investor behaviour is shaped not only by financial fundamentals but also by psychological and market sentiment factors. Arora, Kumar and Kansal (2024) analysed retail investors' attitudes toward IPO investments in India, highlighting that important decision factors include goodwill, company history and grey market premium and identifying knowledge gaps stemming from fear of loss and lack of understanding among some investors.

Shetty et al. (2025) examined retail investor behaviour specifically in the context of SME IPOs in India. Their study on 506 SME IPOs listed between 2021 and 2024 found that issue price and issue size negatively impact retail subscription, while grey market premium and institutional subscription patterns hold positive relationships with retail interest. This underscores the importance of market sentiment and external influences in determining retail participation.

In addition, Singh and colleagues (2022) investigated oversubscription of SME IPOs using quantile regression techniques. Their research provided evidence that factors such as firm size and under-pricing positively influence oversubscription levels, while issue size and pricing mechanisms have negative effects. This highlights structural factors that, combined with sentiment drivers, shape retail subscription trends.

Beyond retail behaviour, research has investigated the role of market sentiment metrics such as grey market premium (GMP). Purushotham and Sethia (2024) examined the factors driving investor interest in Indian IPOs and found that GMP held significant influence over subscription decisions, suggesting that sentiment proxies carry explanatory power beyond traditional financial performance indicators.

Studies focusing on the effect of extraordinary market conditions provide additional insights. For instance, Kalra et al. (2024) explored how fear induced by the COVID-19 pandemic influenced IPO performance, revealing that heightened risk perception affected short-run profitability differently across issuance cycles, thereby highlighting how exogenous shocks interact with investor sentiment.

Research Gap

While previous studies focus on IPO under-pricing, issue characteristics, and listing performance, there's limited evidence that combines primary behavioural survey data with SME IPO participation trends in India. Many existing studies rely only on secondary data and overlook the psychological factors driving retail demand.

This study aims to fill the gap by linking investor psychology with behavioural sentiment concepts to explain retail oversubscription in SME IPOs.

III. RESEARCH METHODOLOGY

The Indian capital market has seen major structural changes over the last decade, especially after the COVID-19 pandemic. Digital brokerage platforms, mobile-first investing apps, UPI-enabled IPO subscriptions, financial content on social media, and increased involvement from first-time investors have transformed capital market participation. One of the most visible outcomes has been the rapid rise of Initial Public Offerings (IPOs), particularly in the Small and Medium Enterprise (SME) segment.

SME IPOs have become a key financing avenue for growth-driven firms that do not meet the size and eligibility criteria for mainboard listings. Platforms like NSE Emerge and BSE SME enable smaller firms to access public capital while giving retail investors chances to invest in high-growth opportunities. However, unlike mainboard IPOs, SME IPOs often come with smaller issue sizes, lower liquidity, limited analyst coverage, and higher business uncertainty.

Despite these structural risks, recent years have shown remarkable retail oversubscription in SME IPOs. Many issues have been subscribed to hundreds of times, often exceeding Mainboard IPO demand. This raises an important academic and regulatory question: why do retail investors eagerly subscribe to relatively risky SME issues?

Traditional financial theory, particularly the Efficient Market Hypothesis (EMH), assumes that investors rationally process all available information and allocate capital based on fundamentals like earnings potential, business strength, and industry outlook. However, the extreme oversubscription observed in SME IPOs suggests that retail decisions might be driven by factors beyond just fundamentals.

Behavioural finance provides a valuable framework to understand this trend. Investors often rely on shortcuts, mimic peer behaviour, react strongly to recent listing gains, and use Grey Market Premium (GMP) as a psychological reference. The rise of online investor communities, Telegram groups, YouTube IPO reviews, and brokerage recommendations further amplifies shared optimism and social proof.

This paper seeks to explore how retail investor sentiment contributes to the growth of SME IPOs in India. By combining primary survey evidence with behavioural finance theory, the study aims to clarify whether subscription enthusiasm is based on rational thinking or psychological influences.

The study employs an explanatory, empirical, mixed-method research design to understand how behavioural sentiment shapes retail participation in SME IPOs.

3.1 Data Collection

Data were gathered from 108 retail investors through a structured questionnaire. The respondents included both seasoned IPO investors and newcomers. A five-point Likert scale measured all behavioural variables. Purposive sampling ensured a focus on those relevant to IPO investment behaviour.

The questionnaire included sections on:

- Demographic profile
- IPO investment experience
- Sentiment toward SME IPOs
- Behavioural influences
- Investor opinion and confidence

3.2 Variables

Independent Variables:

- Grey Market Premium confidence
- High subscription confidence
- Bullish market perception
- Influence of recent IPO success

- Behavioural sentiment score
- Dependent Variable:
- SME IPO participation intention

3.3 Analytical Tools

The study employed:

- Descriptive statistics
- Reliability analysis (Cronbach's alpha)
- Exploratory Factor Analysis (EFA)
- KMO and Bartlett's tests
- Behavioural interpretation framework

The analysis was carried out using Jamovi software.

IV. RESULTS AND DISCUSSIONS

Demographic Insights

The demographic profile of respondents offers important context for understanding SME IPO participation trends. Most respondents were in the 25 to 35 years age group, showing that young, digitally active investors make up the largest segment of SME IPO applicants. This age group is generally more familiar with fintech platforms, app-based brokerage systems, YouTube investment influencers, Telegram IPO channels, and real-time market discussions. Their comfort with digital tools lowers participation barriers and speeds up decision-making, often leading to increased sentiment-driven investing. A significant number of respondents were salaried employees. This suggests that stable monthly incomes and disposable cash encourage active participation in SME IPOs. This group often seeks short-term wealth creation opportunities and is more likely to invest a portion of their savings in speculative strategies. The presence of students, self-employed individuals, and business owners further shows that enthusiasm for SME IPOs spans various occupations, supporting the relevance of behavioural insights across different respondent groups.

The demographics also suggest a link between the recent SME IPO boom and India's retail investing culture that emerged after the pandemic; here, easy access, social validation, and quick information sharing shape market behaviour.

Reliability and Scale Consistency

The reliability of the behavioural sentiment scale was checked using Cronbach's alpha, which yielded a coefficient of 0.638. For exploratory research in behavioural finance, especially when measuring investor psychology with perception-based constructs, this reliability level is acceptable. The results show that items related to confidence, optimism, subscription signals, and collective market beliefs are consistent enough to represent the underlying sentiment.

This finding is crucial because behavioural aspects like herd behaviour, confidence in grey market premiums, and market optimism are psychological factors that cannot be seen directly. The acceptable alpha score confirms that the selected indicators together reflect a common behavioural tendency among retail SME IPO investors.

Item Reliability Statistics	
	Item-rest correlation
Grey Market Premium (GMP) or Expected Listing Profit influences my decision to apply for an IPO	0.302
Fear of missing out (FOMO) influences my IPO investment decisions	0.252
I apply for IPOs because many other investors are applying	0.34
High subscription levels increase my confidence in applying an IPO	0.478
Recent successful IPO listings motivate me to apply for new IPOs	0.334
Positive overall market conditions	0.223

encourage me to invest in IPOs	
Investor sentiment plays a major role in determining the subscription level of SME IPOs	0.302
Recommendations from friends, family or online communities influence my IPO participation	0.465

Exploratory Factor Analysis (EFA)

Exploratory Factor Analysis was performed to uncover the underlying dimensions of retail investor sentiment. The dataset's adequacy was confirmed through:

* KMO = 0.676

* Bartlett's Test of Sphericity: $p < 0.001$

These results show that the correlation matrix was appropriate for factor extraction and that the survey items share enough common variance.

The analysis revealed a dominant single-factor structure, called Market Sentiment Confidence. This factor was the main behavioural driver explaining intentions to participate in SME IPOs.

The strongest factor loadings related to:

- Confidence from high subscription levels
- Positive broader market conditions
- The influence of recent successful IPOs
- Collective optimism among retail investors
- Perceived confidence from strong grey market premiums

The discovery of a single-factor solution is theoretically important. It suggests that retail investors do not view these signals separately; rather, they combine them into one overarching confidence mechanism. Practically, when investors see strong grey market premiums, high subscription demand, and recent successful IPOs together, they form a unified belief that the current IPO is also likely to yield profitable outcomes.

This factor structure supports the idea that SME IPO participation stems from a sentiment ecosystem rather than isolated informational signals.

Behavioural Interpretation

The behavioural interpretation of the findings represents the strongest academic contribution of this study.

- Herd Behaviour

One clear insight from the results is the importance of herd behaviour. Respondents showed strong confidence upon noticing high subscription levels in the retail category. In behavioural finance, oversubscription acts as a signal of perceived issue quality. Investors reason that if many others are applying, the issue must have profit potential. This creates a self-reinforcing cycle: early demand attracts more demand, further boosting subscription multiples. In SME IPOs, where issue sizes are smaller, this effect becomes even more evident because scarcity amplifies perceived opportunity.

- Fear of Missing Out (FOMO)

The findings indicate a strong presence of FOMO-driven decision making. Investors are influenced by recent accounts of extraordinary listing gains and often fear missing out. Instead of evaluating long-term fundamentals, they focus on the immediate possibility of short-term profits. This urgency is particularly strong in SME IPOs because the market has recently seen several issues deliver exceptional listing day returns. As a result, investors begin normalising unusually high gains as expected outcomes.

- Grey Market Premium Anchoring

Grey Market Premium (GMP) emerged as an essential behavioural anchor. Many respondents indicated that GMP significantly influences their confidence before applying. Psychologically, GMP simplifies uncertainty by providing investors with a single, easily interpreted number representing market optimism. Rather than conducting valuation analyses, investors often base their expectations on GMP. A strong positive GMP fosters a sense of certainty, even though it is an unofficial and speculative market signal.

- Recency Bias

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The findings illustrate recency bias, where investors heavily rely on the success of recent SME IPOs. Recent victories create mental shortcuts, leading investors to project past gains into their future expectations. This bias lowers analytical scrutiny and raises the chances of sentiment-driven oversubscription, particularly when numerous successful IPOs occur over a short period.

○ Social Proof and Online Communities

A significant contemporary finding is the role of digital social proof. Retail investors increasingly depend on Telegram communities, YouTube channels, WhatsApp groups, brokerage recommendations, and social media interactions. These platforms bolster optimism through repeated success stories, GMP discussions, allotment strategies, and screenshots of listing gains. Such streams of information diminish independent judgment and enhance collective participation. This finding is particularly relevant in India, where digital-first investing has rapidly gained traction since COVID.

Integration with Behavioural Finance Theory

The expanded findings strongly support behavioural finance frameworks over purely rational finance explanations.

* Herd behaviour theory explains the role of collective subscription signalling.

* Prospect theory explains aggressive participation driven by anticipated gains.

* Investor sentiment theory explains the role of GMP and market-wide optimism.

* Representativeness and recency bias explain extrapolation from recent successful listings.

Thus, the results confirm that SME IPO participation decisions are increasingly driven by psychological confidence structures rather than detailed firm-level valuation analysis.

V. THEORETICAL IMPLICATIONS

The study enhances behavioural finance theory by showing that retail participation in SME IPOs is more influenced by psychological confidence and collective sentiment than by objective evaluations. The findings challenge the assumptions of EMH and emphasise the importance of investor sentiment in primary market involvement.

Practical Implications

The findings are useful for:

- Retail investors: better awareness of biases
- Merchant bankers: improved demand forecasting
- SME issuers: better pricing and timing decisions
- Brokerage firms: investor suitability communication

Policy and Regulatory Implications

The rapid rise in sentiment-driven oversubscription highlights the need for:

- Better investor education
- Stronger risk disclosure
- Cautionary guidance on GMP reliance
- Awareness of post-listing volatility risk

VI. LIMITATIONS AND FUTURE RESEARCH

This expanded paper also explicitly acknowledges limitations.

Limitations

- Sample size restricted to 108 respondents
- Behavioural responses are self-reported
- Cross-sectional primary data design
- Limited direct linkage with long-run listing performance

Future Research Directions

Future studies can:

- Integrate secondary IPO-level subscription multiples
- Model sentiment using machine learning
- Compare SME vs mainboard retail behaviour
- Include longitudinal behavioural tracking
- Test digital community influence quantitatively

VII. CONCLUSION

The rise of SME IPOs in India shows more than just improved access to capital markets. It also indicates a significant change in retail investing culture. The findings of this study reveal that retail investors increasingly depend on market sentiment, grey market signals, recent listing success, and collective optimism when making SME IPO decisions. The evidence suggests that the recent increase in SME IPO participation is not driven only by firm fundamentals. Instead, behavioural biases such as herd behaviour, FOMO, recency bias, and social proof play a big role in shaping retail demand.

This study adds to academic literature by providing primary behavioural evidence from Indian retail investors. It also lays a solid foundation for future work on sentiment-based IPO modelling, subscription prediction, and post-listing volatility analysis.

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