CHAPTER-8

RECOMMENDATIONS AND IMPLICATIONS OF THE STUDY

8.1 RECOMMENDATIONS

Based on the results of this research, this thesis makes suggestions for various groups (regulators, policymakers, and investors) in this subsection.

1. When drafting a prospectus, the authorised person (s) should make sure that the risk factors disclosed in the prospectus meet the requirements outlined in the Securities and Exchange Board of India Regulations, 2018.

2. The risk factors should be included after a thorough assessment of their specificity, rather than by simply extracting and transferring disclaimers from other documents. Where necessary, SEBI should request that the prospectus be amended or a more complete explanation be requested from the prospectus's drafters.

3. If a company's risk mitigation efforts are particularly important, they should be included in its disclosures. Where possible, quantitative data should be used to illustrate the potential negative impact of a risk factor. However, in the absence of quantitative data, a qualitative approach can be used to describe the possible negative effects.

4. Companies should only provide the information necessary for investors to understand the risk they face. Avoid unnecessary background information and extraneous information.

5. Avoid risk disclosure that could affect any issuer in the industry. Each risk factor must be tailored to the issuer's specific facts and circumstances.

6. Instead of using the existing broad categorisation in the risk factors section of the prospectus, the risk factors should be divided into mutually exclusive risk categories with appropriate sub-categories. Risk factor categorization and sub-categorization within each category should be determined by the issuer and should help with risk comprehension. A risk factor must only appear once, in the category that is most appropriate for it.

7. The concerned authorities should make certain that the risk factors section of the prospectus clearly identifies each of the categories under the appropriate headings.

8. There should be a "limited" number of categories in which the risk factors will be presented. In line with the European Securities and Market Authority guidelines, the risk factor section should not include more than ten categories for a standard single-issuer prospectus. These ten categories may be reduced or extended depending on the circumstances when they are not relevant.

9. Only in cases where sub-categorisation is justified by the specific type of prospectus, should categories be further subdivided. In other situations, competent authorities should challenge the inclusion of risk factor sub-categories.

10. In each category, the most significant risk factors should be presented first, and their disclosure in the summary should be in line with the way they are presented in the category in question.

11. Risk factors should be sufficiently detailed or their specificity and importance should be made clear, and they should be presented in a clear and focused manner.

12. The IPO Company should publish a prospectus in both Hindi and English. Furthermore, the issuer should use various plain English principles to make the risk factors easier to read and understand by ordinary investors as well.

13. Risk factor disclaimers should not be so broad that investors find the disclosure to be of little or no use.

14. Cyber security is a major concern these days. The issuer should discuss the scope, consequences, and management of cyber risks.

Most of the earlier researches (Arthurs and Busenitz, 2006; Abdou & Dicle, 2007; Santhapparaj & Murugesu, 2010; Wasiuzzaman et al., 2018; and Jain & Vasudeva, 2018) are limited to qualitative aspect of risk factor disclosure while the present study examines quantitative as well as qualitative risk factors to evaluate the relative amount of attention to risk variables so that the firms' overall approach to disclosure may be measured. The investigation of the risk factor disclosures of 131 IPO occurring firms revealed that disclosures are frequently general and many risk statements overlap within stated risk categories. Furthermore, some firms have grouped together numerous unrelated risk factors under the same risk factor category. The disclosures often consist of a list of generic risks with little to enable investors differentiate between the relative relevance of each risk to the firm. There is no set or standard structure in the prospectuses regarding risk factors disclosure. Such issues

cannot be resolved by a software packages, therefore, it provides motivation for this study. This study employs a one-of-a-kind technique which involves manually as well as technologically handled risk factor data set. It identified mutually exclusive risk categories that encapsulate all the homogeneous risks into one standardised risk category, after which its impact on IPO performance is measured.

8.2 IMPLICATIONS

The results of the present study serve as guidelines for potential investors in the selection of IPOs as per their risk appetite. The mutually exclusive risk categories developed in the present study provide a better understanding of the nature and intensity of risks as compared to their current prevalent generic nature, i.e., internal and external. The findings will help in developing uniformity among all the companies while disclosing risk factors in the IPO prospectus. It will encourage corporates to infuse more transparency while disclosing their risk categories in RHP. These new, mutually exclusive risk categories make investors more prudent about their investment decisions. Risk-averse investors prefer to settle for low risk (uncertainty) and low return and go for low disclosures of risk factors, whereas on the flip side, risk-taking investors prefer to settle for high risk (uncertainty) and high return for their investments and invest in high disclosures of risk factors. Policymakers may also find these mutually exclusive risk categories insightful as they help them in drafting more specific guidelines on risk factor disclosures. Moreover, the results may also provide useful information on risk factors and help in the better evaluation of IPOs. The description of risks in the six mutually exclusive categories helps the portfolio investors get a precise understanding of risk and infuses the risk tolerance as per the requirements of investors. The development of mutual risk factor categories will also help analysts and scholars examine the under-pricing of IPO performance with more accuracy. It broadens the future scope for researchers to identify mutual risk factor categories for IPOs across different industrial sectors and opens new horizons for measuring IPO performance across sectors and time horizons. This study focuses on the risk factor section of the IPO prospectus, which comprises general risk statements. Accounting information is proposed to be included as a risk to measure the riskiness of the securities, as accounting factors are critically significant to the IPO performance.

8.3 LIMITATIONS OF THE STUDY

This research does have some limitations also. The study is based on a sample size of 131 firms. A larger sample size would be ideal for better generalizability of the findings. The IPO firms were segregated into many sectors while analysing the impact of risk categories on IPO performance in different sectors, thus reducing the sample size for different sectors. The sample size can be increased by including more IPO firms that are listed on the SME board, as well as extending the sample time period. One limitation of the study is that it focuses solely on what the risk sections contain. More research is needed to gain a better understanding of how and why risks are disclosed. The sentence-based method has limitations; most notably that it does not assess the quality of risk disclosures. Another limitation is related to the statistical data reduction technique, which is used to generate mutually exclusive risk categories. Some of the risk statements mentioned in the risk factor section did not load significantly on any of the dimensions as a result of the data reduction. As a result, these risk factors could not be measured reliably in the study. Content analysis is used to conduct the risk factor analysis, which has its own set of limitations. It needs manual reading and comprehension of the risk factors in relation to the keywords used, and there is no advanced system or software available to accurately interpret the risk factors. Three control variables, namely Firm Age, IPO Issue Size and Percentage Change in Market Sensex are used in the study. These can also be increased by including quantitative measurement variables such as profitability and leverage variables to further improve the results.