# THE PRICE OF PURPOSE: AN EMPIRICAL STUDY OF "USE OF PROCEEDS" IN INDIAN IPOS

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## Abstract

Companies going public are mandated by the Securities and Exchange Board of India (SEBI) to disclose the purpose for which the funds are being raised. However, it is unknown if such disclosure is actually being used by investors in India while making decisions regarding the price. The study tries to understand the value of such information to investors. This study investigates the impact of disclosed use of offer proceeds on the issue price and listing price, thereby providing a more comprehensive understanding of price formation in the primary market. Utilizing a sample of 195 initial public offerings (IPOs) issued between 2010 and 2021, we examine the impact of the intended use of proceeds disclosure on the offer price and the average listing price. To empirically investigate our hypotheses, we first apply principal component analysis to consolidate the various use-of-proceeds disclosures into five factors and then estimate their impact on the offer price and list price using multivariate ordinary least squares (OLS) regression models with appropriate control variables. The findings suggest that allocations for capital expenditure and debt repayment are positively associated with higher prices. When funds are intended for capital expenditure and debt repayment, the offer price and the average list price are higher. In contrast, using proceeds for working capital, advertising, business promotion, and general corporate purposes shows no significant influence. While prior studies have primarily focused on initial returns, this study uniquely analyzes how specific categories of fund utilization influence IPO pricing, specifically, the offer and list prices, in the Indian capital market.

**Keywords:** Use of Proceeds, Subscription Rate, List Price, Issue Price

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## 1. INTRODUCTION

Initial public offerings (IPOs) represent a critical milestone in a firm's lifecycle, serving as a gateway to access public capital markets. The pricing of IPOs is a subject of enduring interest to researchers and practitioners alike, given its implications for issuers, investors, and the broader financial ecosystem. The extent of information disclosure in the IPO prospectus, particularly regarding the use of proceeds, has been recognized as a pivotal factor influencing investor perception and the pricing outcomes of IPOs. Despite the global evidence on the interplay between prospectus disclosures and

IPO performance (Beatty & Ritter, 1986; Ljungqvist & Wilhelm, 2003), the Indian IPO market remains underexplored.

The Securities and Exchange Board of India (SEBI) and ICDR[1] Regulations require issuing firms to explicitly articulate the objectives of their capital-raising activities within the prospectus. Disclosures regarding the intended use of proceeds enhance transparency and play a pivotal role in reducing information asymmetry, influencing investor behavior and IPO outcomes (Wyatt, 2014). Furthermore, Leone et al. (2007) indicate that IPOs providing comprehensive details regarding the planned utilization of funds raised through IPO reduce uncertainty levels in the pre-offering phase. Liu et al. (2016) state that disclosing the intended use of proceeds is crucial in shaping market movements. Although revealing the intended use of the proceeds raised is mandatory, the companies have reasonable flexibility in disclosing within the given framework. Thus, ambiguity persists concerning the scope and comprehensiveness of the required disclosure. Although disclosing intended fund usage is a regulatory requirement in India, they have flexibility within the regulatory framework. Consequently, this discretion often leads to ambiguity regarding the scope, depth, and comprehensiveness of such disclosures, raising questions about their implications for IPO pricing in the Indian capital market.

The central research question of this study is:

*RQ: How do the different categories of intended use of IPO proceeds, as disclosed in the prospectus, influence the offer price and the average list price of Indian IPOs?*

Earlier studies have investigated the impact of proceeds disclosure on underpricing and listing returns (Hammer et al., 2025; Huson & Meng, 2025; Ranganathan & Veeraraghavan, 2023). Ranganathan and Veeraraghavan (2023) studied the impact of proceeds disclosure on pre- and post-market underpricing in India. However, they have studied its impact in the form of returns. We advance the discussion one step further and see how the disclosed use of the offer influences the price itself. Furthermore, their study does not consider a company's earning potential and peer availability as control variables that may affect investors' decisions.

It is pertinent to study the Indian stock markets due to their unique regulatory practices. The market regulator (SEBI) has made continuous reforms and has strived to bring transparency, minimize information asymmetry, and protect the interests of shareholders. The continual improvements in regulations have attracted funds from foreign institutional investors through direct and portfolio investments. The Indian economy has experienced rapid growth in the number of listed companies, trading volumes, market capitalization, investors, and resources mobilized, establishing itself as one of the fastest-growing capital markets globally (Kant, 2020; Saxena & Sahoo, 2021). Additionally, there is a dearth of studies on the disclosure of the intended use of proceeds in a developing market context (Alyasa-Gan & Che-Yahya, 2022), making it conducive to undertake this study in the developing market of India.

The study utilizes a sample of 195 mainboard IPOs listed between 2010 and 2021, spanning a period of 11 years. The objects of the issue specified in the prospectus are broadly classified into five categories using principal component analysis, i.e., capital expenditure, repayment of debt, working capital requirements, advertising and business promotion, and general corporate purpose. Additionally, we consider the subscription rate to assess its impact on the average list price, as this information is publicly available on the day the listing is made. Using ordinary least squares (OLS) regression, we find that capital expenditure disclosure significantly (and positively) impacts issue price and average list price. Additionally, the subscription rate has a significant positive impact on the average list price. However, we did not find significant results for debt repayment, working capital, advertising, business promotion, or general corporate purposes.

The rest of the paper is structured as follows. Section 2 thoroughly examines the past research, identifies the gap, and establishes a theoretical framework tailored to the Indian context. Here, we also outline the key hypotheses guiding our study. Section 3 discusses the sample and data. We outline the methodology used to select a representative sample and the econometric model employed to identify the relationships between variables. Section 4 presents the analysis of results. Section 5 concludes the study with a concise summary of the key findings and an overview of the study's limitations, delving into the broader implications of the study.

## 2. LITERATURE REVIEW, RESEARCH GAP, AND HYPOTHESIS DEVELOPMENT

### 2.1. Literature review

Rock (1986) and Beatty and Ritter (1986) argue that "use of proceeds" disclosures help initial investors more accurately assess the variability in the secondary market. Investors analyze the information regarding the planned utilization of funds to make deductions about the risks and potential of the company's cash flow and competitors (McGilvery et al., 2012; Bhabra & Pettway, 2003). Consequently, companies that provide unclear information about how they use the money they get experience greater underpricing, as demonstrated by Ljungqvist and Wilhelm (2003).

According to prior studies (Davidson et al., 2006; Skalická et al., 2019; Leone et al., 2007; Wyatt, 2014; Manzi et al., 2025), an IPO firm becomes publicly traded primarily to generate funds for various purposes, such as company growth, research and development, debt settlement, acquisitions, and working capital. Hence, the motivations for companies to become publicly traded primarily differ. According to existing studies, the disclosure of the intended use of proceeds affects market returns. Wyatt (2014) conducted a similar study in the context of Australian IPOs. From June 1994 to December 2000, the study found that the market considered the proposed utilization of funds for financing transactions, such as debt repayment,

[1] SEBI (ICDR) Regulations refer to the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) governing the procedures, eligibility criteria, and disclosure norms for entities raising capital in India. These regulations ensure transparency, protect investor interests, and maintain the integrity of the securities market.

working capital, and insider selling, as a negative indicator due to higher *ex-ante* uncertainty regarding cash flows, and was perceived as an opportunistic behavior. However, Bertinshaw and Balatbat (2008) found no association between the amount of disclosure on the intended use of proceeds and IPO initial returns in the Australian IPO context, conducted from 1995 to 2000.

## 2.2. Research gap

The existing body of literature has thoroughly investigated the impact of the intended use of proceeds disclosure on underpricing and listing returns. In the Indian context, the study by Ranganathan and Veeraraghavan (2023) remains the only notable work on this subject. Their study analyzed the effect of proceeds disclosure on pre- and post-market underpricing in the Indian context. However, their research focused on the impact in terms of returns rather than assessing its direct influence on the pricing of IPOs. This study extends this line of thought to examine how the disclosed use of offer proceeds affects the issue price and listing price, thereby providing a more comprehensive understanding of price formation in the primary market. Furthermore, the study did not account for key control variables such as a company's earning potential and the presence of industry peers, which may significantly influence investor decision-making. By incorporating these variables, our research aims to provide a more nuanced analysis of the relationship between the use of disclosed proceeds and IPO pricing.

This research seeks to address these gaps by incorporating additional control variables and focusing on the direct impact of proceeds disclosure on IPO pricing rather than returns. Doing so contributes to a deeper understanding of how investors perceive different categories of proceeds allocation and their subsequent impact on the valuation of IPOs in the Indian market.

## 2.3. Theoretical framework and hypothesis development

We categorize the use of proceeds disclosed in the prospectus into five categories: capital expenditure, repayment of debt, working capital, advertising and brand promotion, and general corporate purposes.

### *2.3.1. Capital investment*

Issuers that use proceeds as capital investment display their intent to invest in value-creating and cash-generating activities. This is supported by Titman et al. (2001), who state that increased capital investment should be viewed positively because higher investment expenditures are associated with more significant investment opportunities. Further, Trueman (1986) demonstrated that the amount invested in the production process signals better value to the firm. Therefore, such investments are perceived as a proxy for growth. Capital investments include capacity expansion, modernization of existing facilities, and store setup, among others. Due to the lack of substantial observations on research and development investments and acquisitions, we categorize them with other capital investments. Taking a cue from the above, we suggest the following hypothesis:

*H1: A positive correlation exists between the disclosure of the intended use of proceeds for capital investment and the offer price and average list price.*

### *2.3.2. Repayment of debt*

Amor and Kooli (2017) and Wyatt (2014) assert that companies without sufficient investment prospects utilize the funds raised through IPOs to settle their outstanding debts. The findings of Amor and Kooli (2017) indicate that IPOs used for debt retirement exhibit a significant decline in long-term performance. The capital structure theory of Modigliani and Miller (1958) aligns with their findings, suggesting that the growth of debt-requiring IPOs is inferior to that of other IPOs. At the same time, a company with alarming debt levels may face constraints on its growth, which may lead to prioritizing debt repayment over other business objectives. Nevertheless, as previous studies have shown, investors perceive debt retirement as a form of opportunistic behavior. There has been evidence of long-term stock underperformance. In line with the arguments above, we propose the following hypothesis:

*H2: A negative correlation exists between the disclosure of the intended use of proceeds for debt repayment and the offer price and average list price.*

### *2.3.3. Working capital*

For organizations with inconsistent cash flow, working capital is crucial for their daily business operations. Although the companies disclose their working capital needs in the prospectus, they fail to reveal the precise allocation of each rupee obtained for operational funds. Hence, a certain degree of doubt remains due to a deficiency in explicit dedication. Leone et al. (2007) concur with this argument that working capital cannot be classified as being designated for a particular purpose. Studies conducted by Loughran and Ritter (1997) and Kim and Weisbach (2008) demonstrate that corporations have a solid inclination to issue shares to exploit mispricing opportunities. Additionally, raising funds for working capital may indicate that the company is in financial distress, which could lead it to underprice securities. Furthermore, investors will likely offer lower prices for such securities even after they are listed. Based on the above discussion, we suggest the following hypothesis:

*H3: A negative correlation exists between the disclosure of the intended use of proceeds for working capital and the offer price and the average list price.*

### *2.3.4. Advertising and brand promotion*

According to Ranganathan and Veeraraghavan (2023), using proceeds for advertisement signals higher uncertainty surrounding the IPO value. However, when the proceeds are used for advertising and brand promotion, they are likely to boost sales in the future. Following this, Amor and Kooli (2017) found a positive relationship between long-term

operating performance and marketing, and sales promotion was stated as the use of proceeds. Based on the above insights, we hypothesize that:

*H4: A positive correlation exists between the disclosure of the intended use of proceeds for advertising and brand promotion and the offer price and average list price.*

#### *2.3.5. General corporate purpose*

The funds allocated for general corporate purposes lack a definite designated function. Hence, the lack of transparency in the disclosure might be linked to a higher initial underpricing and a lower post-listing market value of the shares. According to a study by Autore et al. (2009), when issuers state a general corporate purpose as their intention, it is more probable that they are signaling insiders' belief that the company's prospects are not as positive as the current share price suggests. For such issues, they found weak long-term operating and stock performance. Owing to the above arguments and conceptual premises, we propose the following hypothesis:

*H5: A negative correlation exists between the disclosure of the intended use of proceeds for general corporate purposes and the offer price and average list price.*

## 3. DATA AND METHODOLOGY

We discuss the data analyzed, the sample selection methodology, and the econometric model used. These are used to study the impact of proceeds disclosure on the offer and average list prices.

### 3.1. Sample and data

We obtained the list of all mainboard IPOs issued in India from April 2010 to March 2021. The selection of the timeframe is motivated by several key considerations. Firstly, on average, an economic cycle takes around four to five years to complete. The study spans two complete economic cycles. Secondly, the timeframe encompasses significant changes in the disclosure requirements mandated by SEBI (ICDR) Regulations during this period. Thirdly, there has been a consistent rise in IPOs issued since April 2010, reflecting the growing public interest in the Indian stock market. This trend strengthens the generalizability of our findings. Finally, the sample period is the most recent one.

The primary sources of information regarding the issues are Chittorgarh[2] and the final prospectus, which is publicly available on the SEBI website[3]. Substantial information is also hand-collected and analyzed from the prospectus. Additionally, firm-level financial variables data is collected from the ProwessIQ[4] database. ProwessIQ, developed by the Centre for Monitoring Indian Economy (CMIE), is a leading financial database that compiles audited firm-level information directly from annual reports and regulatory filings. Its wide coverage, accuracy, and extensive use in prior academic research make it a credible and validated data source for studies on Indian firms.

Table 1 gives an overview of the study sample. During the period, there were 270 company issues. Following the study by Neupane and Poshakwale (2012), we eliminated 75 companies, which included financial companies, insurance companies, real estate investment trusts (REITs), follow-on public offers (FPOs), and firms with missing offer documents or incomplete data.

**Table 1.** Distribution of sample IPOs across periods (2010–2021)

| *Year* | *Number of IPOs issued* | *Sample IPO* | *(% of total IPOs)* |
|---|---|---|---|
| 2010–2011 | 60 | 41 | 70% |
| 2011–2012 | 34 | 22 | 65% |
| 2012–2013 | 9 | 9 | 100% |
| 2013–2014 | 3 | 1 | 33% |
| 2014–2015 | 8 | 6 | 75% |
| 2015–2016 | 24 | 23 | 96% |
| 2016–2017 | 25 | 20 | 80% |
| 2017–2018 | 47 | 28 | 60% |
| 2018–2019 | 15 | 13 | 87% |
| 2019–2020 | 13 | 9 | 69% |
| 2020–2021 | 32 | 23 | 71% |
| Total | 270 | 195 | |

*Source: Authors' computation.*

### 3.2. Definitions of variables

#### *3.2.1. Dependent variables*

Among the dependent variables are:

Issue price (*IP*): In the book-building process, companies present a price band to potential investors, within which investors place their bids. The issue price is the price at which the shares were initially issued to the shareholders.

List price (*LP*): The list price is the average opening and closing prices on the day of listing. It takes into account the investor sentiments regarding the price.

#### *3.2.2. Independent variables*

The SEBI (ICDR) Regulations have specific requirements regarding the disclosure of proceeds use. The regulations specify the minimum disclosures to be made in the prospectus. However, the extent of the disclosures is determined by the companies themselves. We categorize the data points relating to the use of proceeds into five factors using Principal Component Analysis (PCA): debt repayment, total capital expenditure, advertising and business promotion, and general corporate purpose. This ensures comparability of the disclosures across companies. Table 2 provides a detailed explanation of the independent variables considered in this study.

[2] https://www.chittorgarh.com
[3] https://www.sebi.gov.in/
[4] https://prowess.cmie.com/

**Table 2.** Independent variables and their explanation

| *No.* | *Independent variables* | *Description* | *Possible impact on price* |
|---|---|---|---|
| 1 | Debt repayment (*DR*) | It indicates the deployment of the funds raised to repay short-term and long-term loans, non-convertible debentures, commercial papers, and other debt instruments of the company and its subsidiaries. | - |
| 2 | Capital expenditure (*Capex*) | Total capital expenditure includes funds for expanding manufacturing facilities, purchasing capital assets, opening new stores and offices, research and development activities, mergers, acquisitions, and strategic expansions. | + |
| 3 | Working capital (*WC*) | It indicates the deployment of funds required for net working capital, i.e., the expected current assets minus the current liabilities. | - |
| 4 | *Advertising and business promotion* (*ABP*) | Activities that lead to brand communication and brand awareness, such as hiring a brand ambassador, media relations, in-store branding, trade shows, and direct mail, are covered under this heading. | + |
| 5 | General corporate purpose (*GC*) | General corporate purpose refers to funds not for any specific purpose and utilized at the Board's discretion. Amounts earmarked as a contingency for the above purposes are classified under the respective heads. | + |

*Source: Authors' elaboration.*

### *3.2.3. Control variables*

In addition to the above variables, we use several control variables, including total assets (*TA*), age, venture capital backing (*VC*), debt-to-equity ratio (*DE*), change in promoter holding (*PH*), presence of Big Four auditors (*BFA*, a dummy variable), average return on net worth (*RONW*), and availability of peers (*PEERS*, also a dummy variable). These variables have been taken to address the biases among IPO firms regarding size (assets), maturity (age), likelihood of successful exit (venture capital backing), financial risk (debt-equity ratio), quality of issuing firm (change in promoter holdings), quality of financial information (audit by Big Four audit firms viz. Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG and their affiliate firms), profitability (average return on net worth) and availability of options to the investors (availability of peers) because they could influence the outcomes. Detailed explanations, including the computation of the control variables, are provided in Table A.1 in the Appendix.

## 3.3. Econometric model

The independent variables representing the use of proceeds are extracted through principal component analysis into five heads: debt repayment, capital expenditure, working capital, advertising and business promotion expenses, and general corporate purpose. To address the larger skewed distribution, we consider natural logarithm values for average list price, issue price, total oversubscription (*SUB*), total assets, age, and debt-to-equity ratio. The regression equations used to investigate the influence of the use of proceeds disclosure on the issue price and average list price using the OLS regression are as follows.

$$Ln\_IP = \alpha_0 + \alpha_1(DR) + \alpha_2(Capex) + \alpha_3(WC) + \alpha_4(ABP) + \alpha_5(GC) + \alpha_6 Ln(TA) + \alpha_7 Ln(Age) + \alpha_8(VC) + \alpha_9(PH) + \alpha_{10}(BFA) + \alpha_{11}(RONW) + \alpha_{12}(PEERS) + \alpha_{13}(DE) \quad (1)$$

$$Ln\_LP = \alpha_0 + \alpha_1(SUB) + \alpha_2(DE) + \alpha_3(Capex) + \alpha_4(WC) + \alpha_5(ABP) + \alpha_6(CG) + \alpha_7 Ln(TA) + \alpha_8 Ln(Age) + \alpha_9(VC) + \alpha_{10}(PH) + \alpha_{11}(BFA) + \alpha_{12}(RONW) + \alpha_{13}(PEERS) + \alpha_{14}(DE) \quad (2)$$

## 3.4. Descriptive statistics

Table 3 reports the descriptive statistics for the sample IPOs. The average age of the companies going public is 20 years. On average, the return on the net worth of companies going public is positive, indicating that the most profitable companies tend to go public. The average list price ranges from Rs. 8.9 per share to Rs. 2,808.9 per share. On the other hand, the average issue price ranges from Rs. 10 per share to Rs. 1,766 per share. The IPOs were, on average, oversubscribed 29.5 times, which is slightly higher than the oversubscription rate of 28 times reported by Priyesh and Jijo (2024). Out of 195 observations, 72 issues had raised funds for debt repayment, 70 for working capital requirements, 12 for advertising and business promotion activities, and 133 for general corporate purposes. On average, where the company has disclosed the specified use, 45% of the net proceeds were intended for debt repayment, 58% for capital expenditure, 45% for working capital, 22% for advertising and business promotion, and 14% for general corporate purposes.

**Table 3.** Descriptive statistics for the sample IPOs

| *Variables* | *Mean* | *Standard deviation* | *Minimum values* | *Maximum values* | *Observations* |
|---|---|---|---|---|---|
| *LP* | 396.2903 | 421.0735 | 8.90 | 2808.9 | 195 |
| *IP* | 340.6256 | 339.3268 | 10 | 1766 | 195 |
| *SUB* | 29.54559 | 49.2587 | 0.76 | 248.51 | 195 |
| *DR* | 0.1660513 | 0.2793 | 0 | 0.99 | 195 |
| *Capex* | 0.3456923 | 0.3534 | 0 | 1 | 195 |
| *WC* | 0.1613333 | 0.2673 | 0 | 0.98 | 195 |
| *ABP* | 0.0136923 | 0.0768 | 0 | 0.8 | 195 |
| *GC* | 0.0976923 | 0.0950 | 0 | 0.44 | 195 |
| *TA* | 17515.54 | 467.7623 | 189.44 | 515164 | 195 |
| *Age* | 19.99303 | 14.4351 | 2.98 | 92.03 | 195 |
| *DE* | 0.9388205 | 1.4721 | 0 | 15.52 | 195 |
| *RONW* | 0.2064128 | 0.6645 | -1.79 | 8.69 | 195 |

*Source: Authors' computation.*

## 4. RESULTS AND ANALYSIS

We investigate the impact of the intended use of proceeds disclosed in the prospectus on the issue price (Eq. (1)) and the average list price (Eq. (2)) in Tables 4 and 5, respectively. Among the study's independent variables, we find that debt repayment and capital expenditure are statistically significant in explaining the overpricing of IPOs. However, the use of proceeds disclosure regarding working capital, advertising and business promotion, and general corporate purposes is insignificant in describing the impact on the issue price and the average list price.

As expected, Tables 4 and 5 indicate that the coefficient associated with the capital expenditure has a positive sign. This suggests that the extent of IPO pricing is positively correlated to the capital expenditure percentage of the offer value, such that the higher the percentage of capital expenditure from the offer value, the higher the offer price. In other words, if the issuing firm reports that a larger percentage of the offer value is provisioned for capital expenditure, the likely valuation will be higher.

Several observations can be made about this relationship. First, firms with higher allocations for capital expenditure in the offer have strong growth potential, and therefore, potential investors took a positive note of the company's future growth. Considering the higher subscription rate in the market, the issuing firm increased the offer price. Second, a larger allocation for capital expenditure shows that the firm is committed to expanding existing capacities. Due to capacity enhancement, the firm may pursue a greater market share. Third, capitalization of equity reduces the firm's financial risk, and the equity component increases. Our results for capital expenditure are consistent with the studies discussed in the literature review.

Tables 4 and 5 indicate that the coefficient associated with the debt repayment has a positive sign. This suggests that the extent of the offer price is positively correlated to the debt repayment, i.e., the higher the use of proceeds earmarked for debt repayment, the higher the valuation of the offer. The debt repayment shows a strong significance at the 5% level, indicating a high explanatory power. Several observations can be made about this relationship. First, firms set aside a larger amount of IPO proceeds to repay or reduce debt, which is a strong signal for a reduction in financial risk. Another observation is that a firm with a lower debt-to-equity ratio might decide to add a premium to its issue price, thereby reducing the likelihood of initial excess returns. Second, allocating more funds to debt repayment minimizes the firm's potential cost of capital.

Although working capital is statistically insignificant in Tables 4 and 5, its negative coefficient is conceptually consistent with prior research and theoretical assumptions. Investors may view a larger allocation of IPO proceeds to working capital as indicative of operational inefficiencies or short-term liquidity concerns, rather than as a sign of long-term value creation. Kim and Weisbach (2008) further suggest that investors prioritize investment efficiency and long-term strategic capital allocation over working capital allocations, which may not support higher offer or listing prices.

Similarly, we hypothesized a positive relationship between advertising and business promotion expenses. On the contrary, we found a negative relationship between the offer and final list prices. One possible explanation could be that investors prefer companies that allocate funds to strategic initiatives that enhance long-term value for the company. The utilization of funds for advertising and business promotion may raise doubts in shareholders' minds regarding the company's ability to generate a sufficient return on investment. This finding is consistent with Dumrongwong (2016), who found that increased advertising intensity around an IPO can lead to short-term overvaluation, raising concerns about the firm's actual value.

Although insignificant, we find a conceptually appealing positive relationship with general corporate purpose, which contradicts our hypothesis — the general corporate purpose grants management autonomy to utilize funds as and when they identify the right opportunity. A positive correlation indicates that the investors have confidence in management's competency, which makes them willing to invest at a higher price. This perspective aligns with the findings of Wyatt (2014) and Wadhwa and Sahoo (2024), who reported that disclosures related to general corporate purposes can have incremental information content, influencing investor perceptions and firm valuation in Australia and India, respectively.

Regarding the controlling variables, we find the debt-equity ratio and the oversubscription rate statistically significant in explaining the average list price and the issue price. The negative coefficient of debt-equity can be attributed to higher perceived risk due to heavy reliance on debt financing. It concerns the investors due to the increased risk of default if the company struggles to repay debt. Further, a larger burden of interest payments limits profitability. Due to perceived risk, investors are likely to demand a lower offer price and trade at lower prices to compensate for the additional risk they are taking on. Furthermore, as Jeanneret (2005) found, debt repayment indicates that the company is focused on maintaining financial flexibility and improving its capital structure.

Moreover, the oversubscription rate positively correlates with the average list price and is statistically significant. During the pre-listing phase, subscription rates offer initial insights into investor demand. According to Shah and Mehta (2015), the oversubscription rate is a crucial performance indicator for IPOs. An oversubscription rate is commonly associated with investors expressing confidence and optimism regarding an issue (Rahman et al., 2017; Khatri, 2017). A demand higher than the offer size drives up the price on the listing day due to increased competition among buyers.

The regression results are consistent regardless of whether the dependent variable is the list price or the issue price (Tables 4 and 5). The coefficients' direction and significance do not exhibit significant variation, demonstrating that the usage of proceeds and IPO price outcomes is robust.

**Table 4.** Results for the regression equation (1)

| *Variables* | *Coefficient* | *Std. Error* | *t-values* | *P > t* | *95% conf.* | *Interval* |
|---|---|---|---|---|---|---|
| Constant | 4.216 | 0.656 | 6.43 | 0.000 | 2.919 | 5.513 |
| *SUB* | 0.210 | 0.043 | 4.89 | 0.000 | 0.125 | 0.295 |
| *DR* | 0.191 | 0.305 | 2.62 | 0.014 | -0.214 | 0.457 |
| *Capex* | 0.791 | 0.279 | 2.83 | 0.005 | -1.343 | -0.239 |
| *WC* | -0.335 | 0.313 | -1.07 | 0.286 | -0.954 | 0.283 |
| *ABP* | -0.939 | 1.643 | -0.57 | 0.569 | -4.188 | 2.309 |
| *GC* | 0.364 | 0.755 | 0.48 | 0.630 | -1.129 | 1.859 |
| *Ln(TA)* | 0.070 | 0.052 | 1.35 | 0.179 | -0.032 | 0.173 |
| *Ln(Age)* | 0.113 | 0.105 | 1.04 | 0.285 | -0.095 | 0.322 |
| *VC* | 0.183 | 0.147 | 1.24 | 0.218 | -0.109 | 0.474 |
| *DE* | -0.141 | 0.060 | -2.32 | 0.022 | -0.261 | -0.021 |
| *PH* | -0.202 | 0.468 | -0.43 | 0.666 | -1.127 | 0.722 |
| *BFA* | 0.054 | 0.136 | 0.40 | 0.693 | -0.216 | 0.324 |
| *RONW* | 0.398 | 0.315 | 1.26 | 0.209 | -0.225 | 1.02 |
| *PEERS* | -0.044 | 0.155 | -0.29 | 0.772 | -0.347 | 0.258 |

*Note: No. of observations = 161; F-Statistics = 8.78; Prob > F = 0.000; R-squared = 0.457; Adjusted R-squared = 0.404.*
*Source: Authors' computation.*

**Table 5.** Results for the regression equation (2)

| *Variables* | *Coefficient* | *Std. Error* | *t-values* | *P > t* | *95% conf.* | *Interval* |
|---|---|---|---|---|---|---|
| Constant | 4.305 | 0.674 | 6.39 | 0.000 | 2.973 | 5.637 |
| *DR* | 0.211 | 0.313 | 2.68 | 0.021 | -0.207 | 0.631 |
| *Capex* | 0.875 | 0.286 | 3.06 | 0.003 | -1.441 | -0.307 |
| *WC* | -0.317 | 0.320 | -0.99 | 0.323 | -0.951 | 0.315 |
| *ABP* | -0.742 | 1.688 | -0.44 | 0.661 | -4.079 | 2.595 |
| *GC* | 0.738 | 0.771 | 0.96 | 0.340 | -0.786 | 2.263 |
| *Ln(TA)* | 0.087 | 0.053 | 1.63 | 0.104 | -0.018 | 0.193 |
| *Ln(Age)* | 0.139 | 0.108 | 1.29 | 0.199 | -0.0744 | 0.354 |
| *VC* | 0.190 | 0.151 | 1.25 | 0.212 | -0.109 | 0.489 |
| *Ln(DE)* | -0.175 | 0.060 | -2.87 | 0.005 | -2.295 | -0.054 |
| *PH* | -0.139 | 0.479 | -0.29 | 0.771 | -1.087 | 0.808 |
| *BFA* | 0.032 | 0.140 | 0.23 | 0.817 | -0.244 | 0.309 |
| *RONW* | 0.598 | 0.318 | 1.88 | 0.062 | -0.031 | 1.227 |
| *PEERS* | -0.109 | 0.156 | -0.70 | 0.484 | -0.418 | 0.198 |

*Note: No. of observations = 161; F-Statistics = 6.24; Prob > F = 0.000; R-squared = 0.355; Adjusted R-squared = 0.298.*
*Source: Authors' computation.*

## 5. CONCLUSION

Pricing the IPO is the most challenging process, as the issuing firm is new to the market and investors have limited information. The disclosure of how a company intends to use the money raised through an IPO provides critical information to the investors. Investors can assess whether the company's planned use of the process aligns with the investor's investment goals. Further, the disclosure sheds light on potential risks. For example, a heavy focus on funding day-to-day operations might suggest short-term financial strain, while investing in capital appreciation might indicate future growth potential for the company. It provides insights into management's vision for the company's future, demonstrates transparency, and builds trust with investors. Furthermore, when investors have a clear understanding of how the funds will be utilized, they are enabled to make more informed decisions about the appropriate offer price, leading to a more efficient market.

We evaluate the impact of the use of proceeds disclosure on the offer price and the average listing price for 195 Indian IPOs listed between 2010 and 2021. We group the intended use of proceeds information disclosed in the prospectus into five categories. Additionally, we investigate the impact of the intended use of proceeds on the issue price and the average list price, while controlling for certain variables. The multivariate regression analysis reveals that the intended use of capital expenditure and debt repayment has a significant impact on the issue price and average list price. The relationship may be due to the company's perceived growth potential and price increase resulting from increased demand. However, the IPO firm's intended use of funds, including working capital, advertising, business promotion, and general corporate purposes, does not significantly affect the issue price and average list price.

Our study has a few limitations that provide opportunities for future research. First, the analysis is limited to Indian mainboard IPOs, and the findings may not be fully generalizable to SME platforms or other emerging markets. Second, the study relies on prospectus-level disclosures, which may vary in clarity and depth across issuers. Third, the PCA-based classification captures broad categories but may not reflect nuanced strategic intentions behind fund allocation. Future research could extend this work by comparing disclosure practices across countries, examining the implications of post-IPO performance, or utilizing textual analysis and machine-learning techniques to measure disclosure quality more precisely. Longitudinal studies could also explore how evolving SEBI regulations reshape disclosure behavior and pricing efficiency over time.

The findings of this study have significant practical implications for firms, investors, and policymakers. For issuing firms, transparent disclosure of the intended use of IPO proceeds reduces information asymmetry, leading to more accurate pricing and minimizing underpricing risks. Articulating investment plans clearly, particularly

those aimed at productive asset expansion, enhances investor confidence and can contribute to higher IPO valuations. For investors, such disclosures facilitate informed decision-making by providing insights into a company's growth strategy and financial prudence, thereby reducing uncertainty and investment risk. Policymakers and regulatory authorities can utilize these findings to enhance disclosure requirements, thereby ensuring greater transparency and market efficiency. Mandating comprehensive use-of-proceeds disclosures in IPO prospectuses can strengthen investor protection, improve market confidence, and foster long-term stability in capital markets.

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## APPENDIX

**Table A.1.** Explanation of control variables

| *No.* | *Control variables* | *Description* | *Possible impact on price* |
|---|---|---|---|
| 1 | Total assets (*TA*) | Total assets are the sum of net current (current assets minus current liabilities) and non-current assets deployed by the company. It is used as a proxy for maturity as mature companies deploy more assets. Due to their greater operational stability, mature companies typically command a higher valuation. | + |
| 2 | Age | The age of a company is determined by calculating the difference in years between the date of incorporation and when the company becomes publicly traded. Companies that have been in operation for a longer period accumulate more information, thereby reducing market uncertainty. The age metric is widely accepted as an indicator of a firm's operational experience and maturity level. | + |
| 3 | Venture capital backing (*VC*) | Venture capitalists invest in early-stage companies/startups to take an exit at a better value and create windfall gains. It, therefore, indicates the company's growth prospects. For this study, it is a dummy variable. If a venture capital firm held shares before the date of listing or invested immediately in the IPO, the value taken is 1; otherwise, 0. | + |
| 4 | Debt equity ratio (*DE*) | The debt-to-equity ratio is the ratio of the book value of both long-term and short-term debt to the paid-up equity capital of the firm. The perception is that the greater the pre-IPO leverage, the bigger the *ex-ante* uncertainty in the market. Lougrhan and Ritter (1997) and Ritter (1984) utilized leverage, coupled with age, size, and industry classification, among other factors, as risk indicators. | - |
| 5 | Change in promoter holding (*PH*) | The change in promoter holding is the ratio of the change in the number of shares held by the promoter and the promoter group resulting from the offer. The sale of stakes by promoters can be viewed as a negative indicator, as it may signal a perceived decline in confidence in the company. The relationship between the retention of shares by the promoter groups and underpricing has been studied by Allen and Faulhaber (1989). | - |
| 6 | Big Four auditor (*BFA*) | When the financial statements are audited by one of the Big Four accounting firms, the perceived reliability of the financial statements increases. Therefore, such companies will likely be seen as more reliable and fetch a better price. For our study, it is a dummy variable. It takes the value one where the auditors are Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG, as well as their affiliate firms in India. | + |
| 7 | Average return on net worth (*RONW*) | It serves as a proxy for the company's operating performance. A company with better operating performance will have better survival and growth potential. It is calculated as the weighted average return on net worth of the previous three years as reported in the prospectus. | + |
| 8 | Availability of listed peers (*PEERS*) | The availability of listed peer firms provides shareholders with an option to invest in a company with similar characteristics. A company without a peer group will fetch a higher valuation due to fewer investment options for investors. It is a dummy variable. If the peers are available, it takes the value 1; otherwise, it takes the value 0. | - |