

The Influence of Political Connections on IPO Underpricing and Investor Demand: Evidence from India

Purvi Jhavar^{*} and Jayanta Kumar Seal^{}**

Indian Institute of Foreign Trade, Kolkata, India

Abstract: This study explores the influence of firms' political connections on IPO underpricing and investor demand in the Indian market. We hypothesize that while firms use political ties as a non-market signal to mitigate information asymmetry and reduce underpricing, they still fail to capture investors' attention, because such ties are associated with risks of corporate fraud and scandals. Using a hand-collected dataset of 291 politically connected and 352 non-connected IPO firms, we find that politically connected firms are less underpriced and attract lower investor demand than their non-connected counterparts. We document that firms with political connections through board members have a more significant impact than those through the donations channel. Our findings remain consistent following various robustness and endogeneity tests.

Keywords: Political Connections, IPO Underpricing, Investor Demand

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^{*} Doctoral Scholar. Email: purvi_phdmkf21@iift.edu; ^{**} Corresponding author. Email: jseal@iift.edu