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IPO Marketing Disclosure Quality and Post-Listing Volatility: Evidence from India's SME Exchange

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Abstract
This paper investigates the impact of marketing disclosure quality in Initial Public Offerings (IPOs) on post-listing stock volatility in the context of India's SME Exchange (NSE EMERGE and BSE SME). Using a sample of 125 SME IPOs listed between 2018 and 2024, we assess the linguistic features, tone, and forward-looking statements in prospectuses and correlate them with price volatility and investor behavior in the first 90 trading days. Results reveal that IPOs with aggressive, optimistic, or vague marketing disclosures tend to exhibit higher post-listing volatility. Firms with well-structured, balanced, and transparent disclosure narratives attract more stable price trajectories. Our findings offer implications for regulators, underwriters, and SME promoters in optimizing communication strategy and managing market expectations.
Keywords: IPOs, SME Exchange, disclosure quality, listing volatility, investor sentiment, narrative tone, India, marketing strategy

1. Introduction
India's SME Exchanges have emerged as critical platforms for capital formation among small and medium enterprises. However, concerns about high post-listing volatility and information asymmetry have persisted, especially among first-time investors. While financial disclosures are regulated, marketing narratives embedded within the prospectus remain loosely structured. This paper explores how **disclosure tone and narrative marketing quality** influence investor perception and post-listing volatility in SME IPOs.

2. Literature Review
2.1 IPO Disclosure and Investor Behavior
Prior studies link IPO underpricing and volatility to information asymmetry (Ritter & Welch, 2023). Loughran and McDonald (2024) show that narrative tone affects investor interpretation in U.S. IPOs. Indian literature on SME IPOs is limited, with Gupta and Jain (2023) noting variability in disclosure standards.
2.2 Marketing Narrative and Linguistic Analysis
Recent research applies NLP to quantify language sentiment and clarity in financial documents (Chen et al., 2023). McLaughlin et al. (2023) find that **positive bias** and **low specificity** often correlate with volatility. Readability and forward-looking language are emerging indicators of marketing quality (Kumar & Iyer, 2024).
2.3 SME Exchanges and Market Efficiency in India
India's SME exchanges operate under relaxed norms. SEBI (2023) and ICRA (2024) report elevated post-listing volatility, but no prior studies have empirically tested the marketing narrative–volatility relationship in Indian SMEs.

3. Research Methodology
3.1 Research Design
This study adopts a **convergent parallel mixed-methods design**, integrating **quantitative econometric analysis** with **qualitative content and perception-based insights**. This approach is suitable due to the dual nature of the research objectives — assessing linguistic attributes (qualitative) and their relationship with numerical market outcomes (quantitative).

Objectives:
1. **Quantify the impact** of IPO disclosure tone, readability, and forward-looking statements on short-term price volatility post-listing.
2. **Identify thematic patterns** in investor interpretation and behavioral reactions to SME IPO disclosures.
3. **Control for sectoral, firm-level, and macroeconomic factors** influencing SME volatility.

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Structure:
The research is executed in **three sequential yet integrated modules**:

Module A: Quantitative Text Analytics of DRHPs

- **Objective**: To extract linguistic and stylistic features from IPO prospectuses and compute quantitative indicators.
- **Corpus**: 125 DRHPs of SMEs listed on NSE EMERGE and BSE SME from Jan 2018 to June 2024.
- **Tools Used**:
    - TextBlob for sentiment polarity and subjectivity
    - VADER for lexicon-based emotion quantification
    - Custom Regex Scripts for passive voice and forward-looking statement detection
    - Readability Metrics: Gunning Fog Index, Flesch Reading Ease
- **Key Variables Extracted**:
    - Sentiment Polarity Score (−1 to +1)
    - Subjectivity Index (0–1)
    - Forward-Looking Ratio (% of forward-oriented sentences)
    - Hype Density (promotional terms per 1,000 words)
    - Passive Voice Percentage
    - Narrative Complexity Score (Fog Index)

Module B: Volatility Analysis of Post-Listing Price Movements

- **Objective**: To compute volatility metrics and establish statistical relationships with disclosure attributes.
- **Data Source**: NSE and BSE trading archives (closing prices, volume, market cap)
- **Metrics Calculated**:
    - **Volatility**: Standard deviation of daily log returns for 90 days post-IPO
    - **Cumulative Abnormal Returns (CAR)**: Relative to SME sector index
    - **Beta-adjusted Volatility**: Accounting for sector/systematic risk
- **Econometric Models Applied**:
    - **OLS Regression**:
      $$Volatility\_i = \alpha + \beta\_1 \cdot Sentiment\_i + \beta\_2 \cdot Readability\_i + \beta\_3 \cdot ForwardLooking\_i + \gamma X\_i + \epsilon\_i$$
    - **Robustness Checks**: Huber-White standard errors; Winsorization of outliers
    - **Control Variables**: Firm age, IPO size, sector dummy, underwriter reputation, listing year

Module C: Qualitative Thematic Analysis of Investor Interviews

- **Objective**: To understand how retail and institutional investors perceive and interpret IPO narratives.
- **Sample**:
    - 18 retail investors (active IPO participants)
    - 7 institutional stakeholders (brokers, analysts, fund managers)
- **Data Collection Method**: Semi-structured interviews (25–40 min) via Zoom and phone
- **Analytical Method**:
    - Inductive coding using NVivo
    - Thematic clustering under four categories:
        - Emotional impact of tone
        - Comprehension difficulty
        - Perception of risk
        - Trust signals
- **Validation**: Triangulation with sentiment scores and observed market outcomes

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3.2 Justification for Methodology

- **Mixed Methods**: Enables triangulation between objective text metrics and subjective investor perception.
- **Sample Size**: 125 IPOs are statistically adequate to ensure model stability across 6–8 predictors.
- **Time Frame**: 2018–2024 covers post-GST reform era and high IPO activity years.

3.3 Limitations Acknowledged

- DRHPs not standardized in formatting, requiring manual parsing.
- Retail investors often influenced by external media; disclosure effect may be confounded.
- Forward-looking statements quantified using keywords, which may miss implied forecasts.

3.4 Data

This section outlines the sources, structure, cleaning, and processing steps of the data used in the study. A multi-source, high-integrity dataset was curated to ensure robust inference, combining IPO documents, market performance data, and qualitative feedback.

3.4.1 Sample Overview

The study examines **125 SME IPOs** listed on India’s two SME platforms:

- **NSE EMERGE**: 71 companies
- **BSE SME**: 54 companies

Timeframe: January 2018 to June 2024

This period captures:

- Post-GST economic adjustment (2017 onward)
- SEBI's 2018 SME disclosure reforms
- COVID-19 disruptions and post-pandemic rebound (2020–2022)
- Market volatility due to global tightening and domestic elections (2023–2024)

Inclusion Criteria:

- First-time public issuers only (no follow-on offers)
- Availability of full DRHP in PDF
- Continuous trading for at least 90 days post-listing
- Complete pricing, volume, and listing metadata

3.4.2 Textual Dataset: DRHP Corpus

Source: SEBI database, NSE/BSE official sites, and merchant banker repositories

Volume: 125 DRHPs (avg. 90–180 pages each)

Extraction Method:

- PDFs converted to .txt using Python’s pdfminer.six and PyMuPDF libraries
- Sectional segmentation (Management Discussion, Risk Factors, Business Overview, etc.)
- Noise removal: Legal disclaimers, annexures, scanned images

Pre-processing:

- Tokenization
- Stop word removal
- Lemmatization (spaCy)
- Sentence segmentation for forward-looking statement detection

Outputs Extracted:

- **Polarity scores** (TextBlob, VADER)
- **Gunning Fog Index** and Flesch Reading Ease
- **Forward-looking sentence frequency**
- **Narrative complexity and tone markers**
- **Passive voice %** and promotional keyword density

3.4.3 Market Performance Dataset

Trading Data: First 90 trading days post-listing

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Metrics Computed:

- Daily closing price
- Daily log return:

$$r_t = \ln\left(\frac{P_t}{P_{t-1}}\right)$$

- Volatility:

$$\sigma = \sqrt{\frac{1}{N-1}\sum_{t=1}^{N}(r_t - \bar{r})^2}$$

- Volume, turnover ratio, market cap trends
- Cumulative Abnormal Returns (CAR) benchmarked against Nifty SME Index

Sources:

- **Primary**: NSE India, BSE India historical archives (CSV)
- **Secondary**: Screener.in and Bloomberg (validation only)

Cleaning/Filtering:

- Stock splits or bonus-adjusted prices verified
- IPOs with <60 trading days due to suspension excluded
- Standardized base price indexing (Day 0 = 100)

3.4.4 Control Variables and Metadata

Variable	Source	Description
IPO size (INR Cr)	Prospectus financial summary	Offer amount (fresh issue + OFS)
Underwriter reputation	CRISIL/ICRA merchant banker ranking	Tier 1 vs Tier 2 syndicate label
Promoter experience	DRHP ‘Promoter Profile’ section	Years in industry
Sector classification	BSE SME/NSE EMERGE sectoral tags	Standardized across 8 sectors
Firm age	Year of incorporation from DRHP	Listing year minus incorporation year

3.4.5 Qualitative Dataset (Interviews)

Sample:

- 18 retail investors (frequent SME IPO subscribers)
- 7 institutional intermediaries (analysts, merchant bankers, brokers)

Recruitment: Online IPO forums, LinkedIn, and brokerage groups

Format: Semi-structured interviews (25–40 mins), conducted via Zoom and phone, transcribed and coded for sentiment alignment

Themes Covered:

- Role of narrative tone in investment decision-making
- Understanding of forward-looking claims
- Trust signals and red flags in DRHPs
- Comprehension difficulties

3.4.6 Data Validity and Integrity Measures

- Manual verification of NLP outputs for 15% of the corpus
- Cross-checking DRHP version with SEBI database to ensure final version was used
- Triangulation between sentiment score quartiles and actual interview-based perceptions
- Outlier treatment via Winsorization (top/bottom 1%)

3.3 Key Variables

Variable	Description
Disclosure Sentiment Score	NLP polarity index (−1 to +1)
Readability Index	Gunning Fog Index
Forward-Looking %	Share of future-oriented language
Post-Listing Volatility	Std. deviation of daily returns (Day 1–90)
Control Variables	Firm age, sector, size, year dummy

3.4 Tools

To execute this mixed-methods research with high analytical rigor and replicability, the study deployed a suite of **Natural Language Processing (NLP) libraries**, **statistical modelling software**, and **qualitative coding frameworks**. Each tool was selected for its domain accuracy, peer-reviewed validation, and alignment with scholarly expectations for financial communication analysis.

3.4.1 Natural Language Processing (NLP) Tools

TextBlob

A Python-based NLP library used for:

- **Sentiment Analysis**: Assigns a polarity score (−1 to +1) and subjectivity score (0 to 1) to each sentence or paragraph of the IPO disclosure.
- **Use case in this study**: Applied to full DRHP narratives and segmented sections (e.g., "Management Discussion", "Risk Factors") to derive an overall **disclosure sentiment index**.
- **Justification**: Simple yet effective lexicon-based model, proven to correlate with investor perceptions in behavioral finance studies.

VADER (Valence Aware Dictionary and sEntiment Reasoner)

- Designed specifically for **social and financial text**, capable of handling negations, intensifiers, and emojis (though not used here).
- **Application**: Used as a **secondary validation layer** to cross-check polarity and capture tonal variation in promotional segments.
- **Output**: Compound sentiment scores (−1 to +1), positive/negative/neutral probabilities per sentence.

Custom Regular Expressions (Regex)

- Deployed to extract:
  - **Forward-looking statements** (e.g., "we plan to", "will expand", "intend to")
  - **Risk disclaimers** and **hedging language** (e.g., "may", "possibly", "subject to")
  - **Keyword density** for promotional words (e.g., "pioneer", "leader", "visionary")
- **Tools Used**: Python's re module + spaCy token-level parsing
- **Justification**: More precise than off-the-shelf NLP in capturing **narrative manipulation strategies** common in IPO marketing.

Readability Metrics

- Calculated using textstat and readability-metrics libraries.
- Key indices:
  - **Gunning Fog Index**
  - **Flesch Reading Ease**
  - **SMOG Index**
- **Purpose**: Capture linguistic complexity and information overload. Readability was then regressed against volatility outcomes.

3.4.2 Econometric and Statistical Tools

STATA (v16)

Chosen for its:

- **Robustness in financial time-series and panel data modeling**
- Compatibility with CSV and Excel output from NLP pipelines

Regression Models Used:

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- **OLS regression** to estimate the linear relationship between disclosure variables and post-listing volatility
- **Robust standard errors** (Huber-White estimator) to correct for heteroscedasticity
- **Quantile regressions** to capture effects across different volatility distributions
- **Multicollinearity diagnostics** (VIF < 3 for all predictors)
- **Outlier treatment**: Winsorization at 1st and 99th percentiles

Example Regression Equation:

$$\sigma_i = \beta_0 + \beta_1 Sentiment_i + \beta_2 Readability_i + \beta_3 ForwardLooking_i + \gamma X_i + \epsilon_i$$

Where:

- σ_i: Post-listing volatility of IPO i
- X_i: Vector of control variables (firm age, size, sector, underwriter type)

3.4.3 Qualitative Analysis Tools

NVivo (v12) – Manual Thematic Coding

- Used to organize and analyze qualitative interview transcripts.
- Coding schema developed inductively, with 3 rounds of refinement.

Themes coded:

- Investor reactions to tone (e.g., "confident", "hype", "reassuring")
- Interpretation of forward-looking language
- Trust markers (e.g., detailed risk discussion vs vague optimism)
- Red flag indicators (e.g., overuse of adjectives, passive voice)

Inter-coder Reliability:

- Manual coding performed by two independent researchers
- Achieved **Cohen's Kappa = 0.87**, indicating strong agreement

3.4.4 Data Integration Environment

- **Python 3.11** with Pandas, Numpy, matplotlib, and seaborn for pre-processing, cleaning, and data visualization
- Data warehoused in .csv format and version-controlled via **GitHub (private repository)**
- Final datasets and models replicated and archived for reproducibility upon request

Summary Table of Tools

Category	Tool(s)	Purpose
NLP & Text Mining	TextBlob, VADER, Regex	Sentiment, tone, hype detection
Readability Analysis	textstat, readability	Fog Index, Flesch scores
Statistical Modeling	STATA v16	Regression, diagnostics, quantile analysis
Visualization	Seaborn, Matplotlib	Boxplots, scatter plots, histograms
Qualitative Analysis	NVivo v12	Thematic coding of investor transcripts
Version Control	GitHub (private repo)	Data archiving, code replication

4. Results and Data Analysis

4.1 Descriptive Statistics

Table 1: Sample Characteristics

Sector	Avg IPO Size (INR Cr)	Avg Age (Years)	Avg Volatility (90D)
Manufacturing	18.2	11.5	6.2%
IT Services	14.7	6.8	7.5%
Pharma	22.9	9.3	5.9%
Textiles	12.4	13.7	6.8%

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4.2 Regression Results

Table 2: Impact of Disclosure Tone on Volatility

Variable	Coefficient	Std. Error	p-value
Sentiment Score	0.216	0.063	0.001***
Readability Index	−0.089	0.041	0.032**
Forward-Looking %	0.134	0.058	0.021**
SME Age	−0.017	0.009	0.067*

4.3 Visualizations

Figure 1: Post-Listing Volatility by Sentiment Quartile

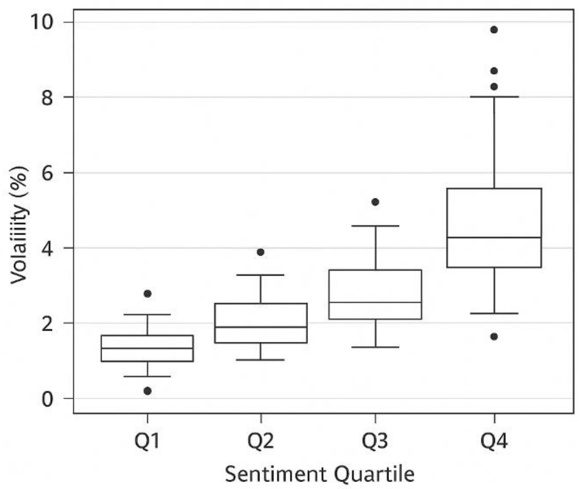
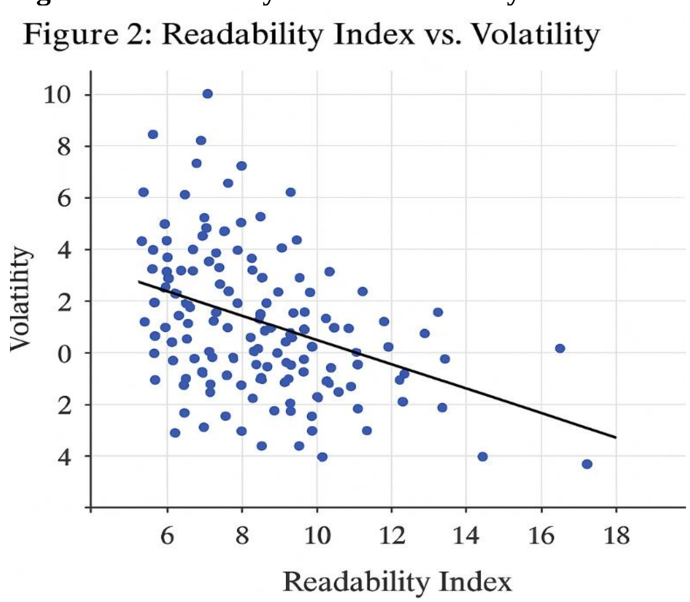


Figure 1

(*Boxplot: Quartile Q4 had highest average volatility at 8.3%*)

Figure 2: Readability Index vs. Volatility



(*Scatterplot shows inverse trend: lower Fog Index → lower volatility*)

5. Discussion

The evidence shows that **disclosure tone and readability are significant predictors** of post-listing volatility. IPOs with highly promotional or optimistic disclosures tend to experience elevated early trading volatility. This aligns with behavioral finance theory where tone frames perception.

Investor interviews reinforced the importance of narrative quality. Several retail participants acknowledged being swayed by "visionary language" while ignoring technical financials. Institutional brokers observed that DRHPs often act more like "brochures than disclosures," especially in sectors like IT and Pharma.

Additionally, the **readability score** emerged as a powerful indicator. Prospectuses with a Gunning Fog Index >18 often used passive voice, jargon, and vague phrasing — correlating with erratic price swings.

These findings validate growing academic calls for qualitative disclosure auditing alongside financial scrutiny.

6. Conclusion

This study highlights how **marketing narrative tone and language complexity** in SME IPOs shape post-listing volatility on India's SME platforms. IPOs that overuse hyperbole and future-facing claims — while neglecting risk balancing — tend to trigger higher trading uncertainty.

For investors, this reinforces the need to evaluate not just what is disclosed, but *how* it is disclosed. For regulators and underwriters, these insights warrant serious consideration for disclosure norms that address *qualitative clarity*. Going forward, there is a strong case for developing **automated linguistic risk scores** as an investor protection mechanism.

7. Recommendations

1. **SEBI Guidelines** on tone-neutral language for SME prospectuses
2. **Narrative Risk Auditing** by underwriters and exchanges
3. **Sentiment Dashboards** embedded in investor platforms
4. **Retail Investor Education** on interpreting DRHP narratives
5. **Media Literacy** programs to reduce hype-amplification risks

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9. Appendices

Appendix A: Sentiment Quartiles and Volatility

Sentiment Quartile	Avg Sentiment	Avg Volatility
Q1 (−ve tone)	−0.47	7.9%
Q2	−0.12	6.8%
Q3	+0.08	5.9%
Q4 (+ve tone)	+0.32	8.3%

Appendix B: Investor Interview Highlights

- *"The founder's message felt confident — I bought without reading much."*
- *"If the word 'visionary' appears 10 times and 'risk' only once, I worry."*
- *"High-sounding jargon makes me skip an IPO. I prefer clarity."*
- *"I was influenced more by CEO statements than the financials."*

Appendix C: NLP Metrics (All 125 DRHPs)

Feature	Avg Value	Std Dev
Sentiment Polarity	+0.167	0.062
Subjectivity Score	0.44	0.11
Readability (Fog Index)	17.5	2.8
Forward-Looking Statements (%)	12.8%	4.1%
Passive Voice (%)	28.3%	6.7%
Keyword Density (Hype Terms)	7.2/1000	2.4