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Review of the Underpricing Phenomena in Companies Conducting IPO on the Indonesian Stock Exchange During the Pandemic Situation to the Endemic Covid-19

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Abstract— *The Covid-19 pandemic impacts health, education and the economy. Companies need a large source of funds to survive in a pandemic situation, therefore companies sell shares to the public by conducting an Initial Public Offering (IPO). The phenomenon of underpricing often occurs when conducting an IPO. This study tries to find factors that can affect the level of underpricing in companies that conduct IPOs during the pandemic situation until the end of the Covid-19 pandemic from 2019 to 2021. There are several internal factors that affect underpricing such as operating cash flow, financial leverage, capital structure, accounts receivable turnover, inventory turnover, and total asset turnover. The sampling technique used a purposive sampling method with 160 populations that met the criteria of 60 data, after outliers there are 47 samples use in this study. The analysis method used is multiple linear regression analysis. The research provides results that financial leverage, capital structure, accounts receivable turnover, and total asset turnover affect underpricing, meanwhile operating cash flow and inventory turnover have no effect on underpricing.*

Keywords— *Capital Structure; Covid-19; Financial Leverage; Initial Return; Inventory Turnover; Operating Cash Flow; Receiveble Turnover; Total Assets Turnover; Underpricing.*

I. INTRODUCTION

The Covid-19 pandemic or SARS-CoV-2 virus was first detected in Wuhan, China. Covid-19 has an impact on the health, economy, education, and social life of the community. This has made the government issue a lockdown policy which has implications for limiting all community activities, both educational activities, social activities, and economic activities in every country including Indonesia. According to the Ministry of Finance of the Republic of Indonesia, government consumption decreased by 3.25 percent to 1.94 percent. Not only consumption has decreased, but investment has also decreased from 3.25 percent to 1.94 percent. It can be concluded that the Covid-19 pandemic has an impact on society, government, and companies in economic activity. In the press release of the Financial Services Authority of Indonesia (OJK 2021) shows that the performance of the capital market in Indonesia has begun to improve, reflected in market stability, trading activity, fund raising, and the number of investors reaching record highs. As of the end of 2021 through the Effective Statement letter on the Registration Statement, OJK informed that there were public offerings for 192 emissions consisting of 52 initial public offerings, 6 public offerings of sukuk securities, 44 limited public offerings, 37 in the form of phase I sustainable public offerings, 53 phase II sustainable public offerings, with the results of raising funds from public offerings amounting to IDR 358.43 trillion. OJK noted an increase in the number of investors in the capital market by 7.83 million investors, increasing to 92.70. In 2021 Indonesian Central Securities Depository (KSEI) released statistical data showing a very significant increase in investors. The increase of 53.41% is still low from 2019 to 2020 data. However, at the end of 2020 the number of investors reached 3,880,753 even though the pandemic was still ongoing.

Companies aim to expand their business and maximize the welfare of their owners (Ramadana, 2018). Companies need a source of funds for their operational activities where the source of funds can be obtained from both inside and outside the company (Sartika, et al., 2022). The capital market is one of the external capital that companies take to obtain funds, in the capital market companies raise funds from the public through the issuance of bonds or the issuance of new shares (Yuniarti and Syarifudin, 2020). The first offering of shares to the public is known as an Initial Public Offering (IPO) and will then be sold on the stock market such as in Indonesia. There is often an underpricing phenomenon in companies that conduct IPOs. Underpricing occurs when a company offers shares at a price lower than the share price resulting from the valuation to attract investors' attention (Pomykalski and Filipiak, 2020). The existence of the underpricing phenomenon, the company must provide important information about the company's value to the underwriter to reduce underpricing, but if the information on the company's value provided to the underwriter is low, it causes a high underpricing phenomenon in companies that issue initial shares (Putra and Djawoto, 2020).

Several things that can affect underpricing in companies that IPO on the IDX such as operating cash flow. Operating cash flow is cash flow from operating activities which is a reference for the company's operating results to assess whether the company in operation is able to generate cash that can be useful for investment activities, therefore investors can assess the state of the company through operating cash flow (Salsabila and Ardini, 2022). Financial leverage is the company's ability to fulfill its obligations with assets owned by the company (Sinaga, 2020). High financial leverage will provide high company risk, causing high uncertainty in the initial market share price, therefore it will affect the high level of underpricing (Rahmawati, et al., 2022). The next factor is capital structure, which is the distribution of various sources of long-term financing which is a component of the financial structure (Haralayya, et al., 2021). Capital structure is a measuring tool to measure how capable the company is of paying debts with the capital it has. Capital structure is measured using the Debt to Equity Ratio by comparing total debt to total capital in the company (Ramadhan and Andini, 2022). The next factor is accounts receivable turnover and inventory turnover. Accounts receivable turnover is a ratio description that measures how long accounts receivable can be collected by the company in one period and how many times the funds invested in these receivables rotate in one period (Herison, et al., 2022). Inventory turnover is used to determine how many times the inventory turnover during one period in the company (Ayu and Oetomo, 2019). The last factor is total asset turnover, which measures how effectively and efficiently the company manages its assets for the company's operational activities (Albertus and Syaiful, 2022). The high asset turnover indicates that the company is able to manage its assets well (Renitia, et al., 2021).

II. LITERATURE REVIEW & HYPOTHESIS

Signalling Theory

Signal theory was first proposed by Spance in 1973 in the study "Job Market Signaling" which states that asymmetric information can occur in the labor market. Signaling Theory explains that relevant and accurate information is provided to investors, therefore it can be utilized in making decisions to invest. Therefore, Spence created signaling criteria to add strength to decision making. This theory explains the importance of companies in providing information on investor decisions in investing. Information presents a record, description, information. The dissemination of information provides a signal to investors, either a positive signal or a negative signal. The more positive signals the higher the value of the company and will result in an increase in investors to invest, and vice versa (Aipassa and Hermie, 2022).

Underpricing

Underpricing is a phenomenon that often occurs when companies conduct IPOs. Underpricing is an offering activity carried out by a company conducting an IPO with a share price that is lower than the share price resulting from the valuation to attract investors (Pomykalski and Filipiak, 2020). Another definition of underpricing is a condition where there is a difference between the share price offered in the secondary market and the share price offered in the primary market at the time of the IPO. The difference is called a positive return or often known as the initial return for investors. It is concluded that underpricing is a phenomenon where the share price at IPO is smaller than the share price in the secondary market (Aipassa and Hermie, 2022). The phenomenon of underpricing is detrimental to the company because the company does not get the maximum amount of funds. On the other hand, the existence of the underpricing phenomenon is beneficial for investors because investors get stock returns (Renitia, et al., 2021).

Operating Cash Flow

Operating cash flow is the company's cash flow that comes from the operational activities of a company. The company's operating cash flow determines whether the company is able to generate cash that can be useful for investment activities, pay off obligations, and maintain the company's operating ability without relying on external funding, therefore the company's operating cash flow is a consideration for investors in assessing the company (Salsabila and Ardini, 2022). Companies that have high operating cash flow show that the company is doing its operations well. The increase in the company's operating cash flow indicates the increase in profits earned by the company and will have an impact on the stock price in the market (Ridha, 2019). A high share price can minimize underpricing. The results of Salsabila and Ardini (2022) shows that operating cash flow affects changes in stock prices during the Covid-19 pandemic.

H1: Operating cash flow affects underpricing

Financial Leverage

Financial leverage is financial information that is a reference for assessing companies that will go public. Sinaga (2020) states that financial leverage is an indicator to assess how capable the company is of managing its assets to guarantee corporate debt. According to Rahmawati, et al. (2022) High financial leverage indicates that the company has a high risk. High company risk can lead to uncertainty in the share price in the primary market, resulting in a high level of underpricing. The results of Rahmawati, et al., (2022) states that the financial leverage variable has an effect on underpricing.

H2: Financial leverage affects underpricing.

Capital Structure

According to Haralayya, et al., (2021), capital structure is part of the financial structure which consists of various sources of long-term financing. Capital structure is a measuring tool used to compare own capital with foreign capital. If the company obtains foreign capital, the company must consider the balance between risk and return. The high level of capital structure in the company can also cause high risk for shareholders. To avoid this risk, the company (issuer) offers shares to the public at a lower price (Cendriani, 2021). Ramadhan and Andini (2022) giving proof that capital structure affects Islamic stock prices.

H3: Capital structure affects underpricing

Receivable Turnover

Accounts receivable turnover is a ratio to measure how many times the company collects receivables or how many times the receivable funds invested in the company can turn around in a certain period (Herison, et al., 2022). The high turnover of receivables in the company indicates that the company is able to collect its receivables and minimize uncollectible accounts. It can be concluded that the high turnover of receivables makes the stock price increase (Ayu and Oetomo, 2019). Increased share prices can minimize underpricing. This research is supported by research from Hung, et al., (2018) and Wulandari, et al., (2022) that accounts receivable turnover affects stock prices.

H4: Accounts receivable turnover affects underpricing.

Inventoty Turnover

Ayu and Oetomo (2019) define inventory turnover as a ratio picture to measure how many times the funds used in the company's inventory can rotate in one period. Another definition of inventory turnover is a tool to measure the number of times a company replaces inventory that has been sold in a certain period (Dini, et al., 2022). The amount of inventory turnover indicates the small level of funds needed in the company's inventory in a certain period. The company's inventory turnover can affect the determination of the stock price (Ayu and Oetomo, 2019). The high inventory turnover results in a high share price, therefore it can reduce underpricing. This is supported by Ayu and Oetomo's research (2019) that inventory turnover has a positive effect on stock prices.

H5: Inventory turnover affects underpricing.

Total Assets Turnover

Total assets turnover or called Total Assets Turnover (TATO) is a ratio that measures how effectively and efficiently the company manages its assets for company operations (Albertus and Syaiful, 2022). The high value of Total Assets Turnover makes it easier for companies to set an offering price during an IPO, therefore companies dare to set a high share price and will minimize the phenomenon of underpricing (Renitia, et al., 2021). Total assets turnover is used to measure how efficient the company's assets are to support its sales (Carolina, 2020). This research is in line with the research of Renitia, et al., (2021) that accounts receivable turnover has an effect on underpricing.

H6: Total assets turnover affects underpricing.

III. Methodology

This research uses a quantitative approach method. The population taken is companies that conduct Initial Public Offering (IPO) on the Indonesia Stock Exchange in 2019-2021. The method used in taking samples is the purposive sampling method in accordance with the sample criteria. The sample criteria used are as follows: 1) Companies that conducted Initial Public Offering (IPO) on the IDX in 2019-2021; 2) Companies that experienced underpricing in 2019-2021; 3) Companies that present complete audited financial reports during 2019-2021. Secondary data comes from financial reports on companies or annual reports of companies that conducted IPOs in 2019-2021 on the Indonesia Stock Exchange through the official website, namely IDX with the website www.idx.co.id and the official website of the company related to the research.

This study uses the following measurements:

TABLE 1. Measurement of Operational.

Variables	Indicators	Source
Underpricing (IR)	$IR = \frac{\text{Closing Price} - \text{Offering Price}}{\text{Offering Price}}$	(Abbas, et al., 2022)
Operating Cash Flow (AKO)	$AKO = \frac{\text{Operathing Cash Flow}}{\text{Total Assets}}$	(Salsabila & Ardini, 2022)
Financial Leverage (DAR)	$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$	(Rahmawati, et al., 2022).
Capital Structure (DER)	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$	(Ramadhan & Andini, 2022)
Receivable Turnover (RT)	$RT = \frac{\text{Sales}}{\text{Average Accounts Receivables}}$	(Ayu & Oetomo, 2019)
Inventory Turnover (IT)	$IT = \frac{\text{Sales}}{\text{Average Inventories}}$	(Ayu & Oetomo, 2019)
Total Assets Turnover (TATO)	$TATO = \frac{\text{Sales}}{\text{Total Assets}}$	(Maulidya & Lautania, 2016).

IV. Result and Discussion

TABLE 2. Descriptive Statistic

Variable	N	Min	Max	Mean	Standard Deviation
AKO	47	-0.601	0.302	-0.04227	0.193008
DAR	47	0.017	0.739	0.36073	0.194036
DER	47	0.017	2.837	0.74069	0.632277
RT	47	0.082	172.995	15.01601	27.745071
IT	47	0.001	113.361	11.54794	23.863012
TATO	47	0.003	26.560	1.13386	3.814588
IR	47	0.007	0.700	0.39208	0.187934

Source: data processed, 2023

Based on the results of descriptive statistical analysis, the amount of data or N in this study is 47 companies that conducted IPOs on the Indonesia Stock Exchange during the pandemic until the end of the Covid-19 endemic in the period 2019 to 2021. Operating cash flow has a minimum value of -0.601, a maximum value of 0.302, the average obtained is -0.4227, and has a standard deviation of 0.193008. Financial leverage has a minimum value of 0.017, a maximum value of 0.739, an average of 0.36073, and has a standard deviation of 0.194036. Capital structure has a minimum value of 0.017, a maximum value of 2.837, an average of 0.74069, and has a standard deviation of 0.632277. Accounts receivable turnover has a minimum value of -0.082, a maximum value of 172.995, an average of 15.01601, and has a standard deviation of 27.745071. Inventory turnover has a minimum value of 0.001,

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a maximum value of 113.361, an average obtained of 11.54794, and has a standard deviation of 23.863012. Total asset turnover has a minimum value of 0.003, a maximum value of 26.560, an average obtained of 1.13386, and has a standard deviation of 3.814588. underpricing has a minimum value of 0.007, a maximum value of 0.700, an average obtained of 0.39208, and has a standard deviation of 0.187934.

TABLE 3. Classical Assumption Test

Variable	Tolerance	VIF	Heteroscedasticitys
AKO	0.826	1.210	0.418
DAR	0.103	9.722	0.872
DER	0.108	9.231	0.872
RT	0.250	4.000	0.122
IT	0.492	2.034	0.649
TATO	0.182	5.491	0.812

Source: data processed, 2023

Based on table 3, classical assumption test, this study is normally distributed using the Kolmogorov-Smirnov Test which is worth 0.200 more than 0.05. The test results in the table show that there is no multicollinearity with each variable having a tolerance value of more than 0.10 and a VIF value of less than 10.00. Heteroscedasticity test using Spearman’s rho, shows that each variable has a value of more than 0.05, therefore this study does not occur heteroscedasticity problems. Durbin atson-d shows the result of 1.219, the value is contained in -2 to +2. Therefore, it can be concluded that there is no autocorrelation.

TABLE 4. Multiple Linear Regression Test

Variable	B	sig	Results
constant	0.326	0.000	
AKO	-0.041	0.766	H1 Rejected
DAR	0.851	0.033	H2 Accepted
DER	-0.246	0.039	H3 Accepted
RT	-0.007	0.000	H4 Accepted
IT	-0.002	0.298	H5 Rejected
TATO	0.060	0.000	H6 Accepted

Source: data processed, 2023

The multiple linear regression test results in an F test with a significance value of 0.007 more than 0.05, this shows that the multiple regression model in this study has met the requirements and can be said to be a fit regression model. The Adjusted R Square value is 0.248 or 24.8%. This shows that the AKO, DAR, DER, RT, IT, and TATO variables can explain the dependent variable, namely underpricing of 0.248 or 24.8%, while the rest is explained by other variables not included in this study by 75.2%.

Based on table 4, it can provides an overview of the effect of the independent variable on the dependent variable. These results, AKO obtained a significant value of 0.766, which means that this value is more than 5% or 0.05. This shows that the operating cash flow (AKO) variable doesn’t affect on the level of underpricing in companies that. It can be concluded that H1 is rejected. Operating cash flow is not a signal in influencing investors in making decisions to invest in companies that conduct IPOs. The results of this study disagree with research conducted by Salsabila and Ardini (2022), but are supported by research conducted by Masita (2021) which states that operating cash flow has no effect on stock prices and underpricing levels, because the AKO generated by the company has a negative value. It can be concluded that AKO is not always a determinant of the rise and fall of stock prices, because it depends on the situation and conditions of the company.

Financial leverage or DAR obtained a significance value of 0.033 which is less than 0.05. This shows that the financial leverage affects under prcing in companies that conduct IPO. It can be concluded that H2 is accepted. The influence of financial leverage on underpricing can be said that investors get a positive signal by looking at the level of financial leverage in the company. This study provides empirical evidence that financial leverage affects underpricing. This is consistent with the research of Rahmawati, et al., (2022) which shows that financial leverage has an influence on underpricing. High financial leverage will cause a decrease in assets, so that it can result in high company risk. This is caused by companies that pay off debt by selling their assets. It can be concluded that as financial leverage increases, underpricing will increase.

Capital structure (DER) obtained a significant value of 0.039 which is less than 0.05. This shows that the capital structure (DER) affects underpricing in companies that conduct IPOs. It can be concluded that H3 is accepted. According to signaling theory, companies are able to provide information about the capital structure that is relevant and accurate to investors so that it can be utilized in making decisions to invest. The results of this study are in line with research conducted by Ramadhan and Andini (2022) which states that capital structure affects stock prices, thereby affecting the level of underpricing in IPO companies. This is due to companies that more often use funding sources from outside the company to meet their capital structure needs, one of which comes from selling company shares.

Accounts receivable turnover (RT) obtained a value of 0.000, which means that the value is less than 0.05 or 5%. This shows that the accounts receivable turnover affects underpricing in companies that conduct IPOs. It can be concluded that H4 is accepted. This research is supported by the results of research by Hung, et al., (2018) and Wulandari, et al., (2022) that accounts receivable turnover affects the stock price, thus affecting the level of underpricing. A high turnover value indicates that the company is able to manage its receivables well and is able to collect its receivables, and minimize uncollectible accounts. The higher the accounts receivable turnover, the lower the level of underpricing.

Inventory turnover (IT) on underpricing obtained a significant value of 0.298, which means that this value is more than 5% or 0.05. This shows that the inventory turnover variable (IT) doesn’t affect underpricing in companies that conduct IPOs. It can be concluded that H5 is rejected. The results of this study indicate that inventory turnover does not guarantee that the company is able to manage inventory well. It means inventory turnover is not a signal in influencing investors in making decisions to invest in companies that IPO on the Indonesia Stock Exchange. This study disagrees with research conducted by Ayu and Oetomo (2019), but is supported by research conducted by Elvina, et al., (2019) which states that inventory turnover has no effect on stock prices, so it does not affect the level of underpricing in IPO companies. This happens because companies cannot manage inventory turnover effectively and efficiently.

Total asset turnover or TATO obtained 0.000 which is less than 0.05, this shows that the total asset turnover affects underpricing in companies that IPOs. It can be concluded that H6 is accepted. The effect of inventory turnover on underpricing can be said that investors get a positive signal by looking at the level of total asset turnover in the company. The financial statements presented by the company can show that the company can manage its assets during one period, so that investors are interested in investing in the company. This study provides empirical evidence that total asset turnover affects underpricing. This is consistent with the research of Renita, et al., (2021) which shows that total asset turnover has an influence on underpricing. If the company manages its assets effectively to get large sales, the company will get high profits. High TATO can make it easier for companies to determine the share price at IPO. This means that the company is able to set a high share price, therofer it can minimize the level of underpricing.

V. Conclusion

This study is used to examine factors that can affect the occurrence of underpricing in companies conducting IPOs on the Indonesia Stock Exchange during the pandemic to the Covid-19 emdemic in 2019 to 2021. Based on the results of data processing, it is concluded that capital structure, financial leverage, accounts receivable turnover, and total asset turnover can affect underpricing. Other variables such as operating cash flow and inventory turnover do not affect underpricing in companies. This research aims to provide an overview for companies to be able to manage capital structure, financial leverage, accounts receivable turnover, and total asset turnover effectively and efficiently, as well as improve the level of inventory turnover and operating cash flow of the company. This makes the company able to determine a high share price when conducting an IPO, and underpricing can be minimized and the company can survive during a pandemic situation. For investors, this study provides company information that it can be taken into consideration when making decisions to invest in companies that IPO on the IDX.

This study has limitations in underpricing factors in a pandemic situation that are less varied. Therefore, it is recommended to look for variables that cannot be controlled during a pandemic that companies can find solutions to avoid underpricing. The lack of samples is a limitation in this study and further research is recommended to increase the number of samples by extending the research time frame and in pandemic situations other than Covid-19. Further research can obtain better management results.

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