Do Venture Capital-backed IPOs endure crises better? Empirical evidence from India.

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ABSTRACT

The study examines whether venture capital (VC) backing can lead to better post-IPO performance in times of significant macroeconomic crisis situations in an emerging country like India. Based on a sample of 580 IPOs issued between 2003 and 2023, the study examines the performance of firms during two crisis periods, i.e., the Global Financial Crisis (GFC) of 2008-09 and the COVID-19 pandemic of 2020-21, to evaluate the impact of VC backing on post-listing performance. The study employs the panel-corrected standard error (PCSE) estimates to evaluate the impact of VC backing on the accounting profitability (ROA), market valuation (Tobin's Q), and market-adjusted return (MAR). The findings indicate that VC-backed IPOs exhibit lower profitability and market-adjusted returns but higher market valuation than non-VC-backed IPO firms. However, in times of macroeconomic crisis, both groups of IPOs demonstrate a decline in performance, with VC-backed IPOs experiencing a relatively smaller decline in performance, indicating that VCs alleviate the adverse impact of economic shocks by active monitoring and financial support. The robustness of the results is ensured by two sub-sample analyses based on firm size and crisis period, which validate the stabilizing role of VCs. This study offers valuable insights for policymakers and investors on how VC funding can strengthen market stability and firm recovery during periods of macroeconomic crisis.

Keywords: macroeconomic shocks; market valuation; operating performance; resilience; stock returns