Reason of failure of Initial Public Offers: An empirical Study of Stock Market Experts

Pradeep Joshi

Associate Professor, School of Management, Graphic Era Hill University,
Dehradun Uttarakhand India

Abstract

An Initial Public Offering (IPO) in the Indian stock market could fail for a number of reasons. Since market volatility and investor mood have a significant impact on IPOs, the general state of the market is one potential explanation. Investor caution and reluctance to take part in initial public offerings (IPOs) may result in a lack of demand and possible failure if the market is in a downturn or uncertain period. Poor IPO valuation or pricing could be another factor. Investor disinterest and a lackluster market response may be the result of the offering price being judged by investors to be excessively expensive relative to the company's perceived value. Furthermore, poor financial performance, dim growth prospects, or a lack of a distinct business plan and competitive edge can be factors. Investors look for businesses with solid foundations, room for expansion in the future, and enticing investment opportunities. Investor mistrust and a failing IPO may be the outcomes of ineffective communication of these issues. The success of an IPO can also be impacted by regulatory problems, challenges with company governance, or unfavorable market trends. Any unfavorable event that damages investor confidence or casts doubt on the company's future prospects might result in a failed IPO on the Indian stock market. The researcher had considered 182 stock market experts to know their opinion for the reasons of failure of initial public offers in stock market and concludes that there are number of significant reasons of failure of initial public offers in stock market like Investor caution and unwillingness to take part in IPOs result in lack of demand and possible failure and Poor financial performance, low growth, lack of distinct business plan and competitive edge.

Keywords: Initial Public Offerings (IPO) Failure, Indian Stock Market, Market Volatility, Investor Caution, Poor IPO Valuation, Poor Financial Performance, Regulatory Problems.

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Introduction

According to Hiransha et al. (2018), the emphasis was placed on utilizing deep learning models to anticipate the stock market and reveal the causes of Initial Public Offerings (IPO) that failed on the Indian stock market. They focused on the difficulties involved in effectively predicting market trends while highlighting the unpredictable and complicated characteristics of the stock market. Inability to predict market behavior may result in "incorrect pricing" of initial public offerings (IPOs), which may then deter investor interest and ultimately cause the offering to fail.

Artificial neural network-based "deep learning models" are taught to spot patterns and predict future outcomes .It is challenging to precisely forecast the stock market's behavior, though, because it is influenced by a variety of variables, such as the state of the economy, investor sentiment, and world events. As a result, "mispricing," in which the offered price does not correspond with the perceived value of the company, may affect IPOs. Investor reluctance to take part in the sale could result from the IPO being "overpriced," which would make it unsuccessful.

Vismara (2018) has looked into the actions of investors in the IPO environment, concentrating on the informational cascades among equity crowdfunding participants. They noticed that the decisions and actions of others are frequently relied upon by investors, which has a cascade effect. This indicates that in the context of an IPO, if significant investors or early participants show a lack of interest in or skepticism about an offering, it can push others to do the same. These "information cascades" can compound unfavorable impressions and decrease investor demand for the IPO, which can ultimately result in the offering's collapse. They emphasized how crucial investor sentiment and powerful investors are in determining whether initial public offerings succeed or fail. Investor involvement may be reduced if unfavorable rumors or concerns about the IPO spread among investors, eroding confidence. For an IPO to be successful on the Indian stock market, it is therefore critical to uphold a positive reputation and manage information dissemination well.

Yu and Yan (2020) focused on "deep neural networks" in their "area of stock price prediction” which can show the causes of "Initial Public Offerings" (IPOs) in the Indian stock market that fail. They emphasized on using deep learning algorithms to precisely estimate stock values, inadvertently illuminating the difficulties in making market predictions and the potential repercussions for initial public offerings (IPOs). Because of the "complex and volatile" character of the market, they emphasized how challenging it is to predict stock values with accuracy. "Deep neural networks" are effective technologies that can examine and spot patterns in enormous amounts of historical data. The demand for initial public offerings (IPOs) may drop and ultimately result in their failure if the market environment or investor mood take a negative turn.

Literature Review

Roondiwala et al. (2017) emphasized on stock price forecasting utilizing "LSTM (Long Short-Term Memory)" which can offer insights into the causes of "Initial Public Offerings" (IPOs) in the Indian stock market that fail. To estimate stock values accurately, they used LSTM, a kind of recurrent neural network. The "complex and dynamic" nature of the market was emphasized as a factor contributing to the challenges of effectively forecasting stock prices. In order to be useful for predicting, LSTM networks must be able to recognise "long-term dependencies" and trends in data.But because the stock market is impacted by so many different things, such as "economic indicators," "investor sentiment," and "global events," it is difficult to predict its behavior with precision. The demand for IPOs may drop, which may result in their failure, if market circumstances or investor mood take an unfavorable turn.

Seru (2014) emphasized on the influence of conglomerates on company boundaries and their impact on R&D activities in the context of comprehending the causes of Initial Public Offerings (IPOs) in the Indian stock market failing. It emphasized how crucial it is to comprehend how conglomerates operate and how their effects affect company strategies. When it comes to IPOs, companies with a wide range of commercial activities and an ambiguous strategic emphasis may have trouble luring investors. It may be challenging for companies to persuade investors of their business advantage and future growth if their resources and expertise are dispersed among several industries. As a result, investor interest in and need for such IPOs may be low, which could result in their failure on the stock market. Therefore, a lack of innovation or a significant R&D focus may be a factor in the failure of IPOs on the Indian stock market.

Khanna et al. (2015) focused on determining effective operational strategies for emerging markets, emphasizing the significance of comprehending the special features and changes occurring in emerging economies. Emerging market IPOs, like those in India, necessitate strategies that take into account the unique opportunities and problems they bring. The success or failure of IPOs can be strongly impacted by elements including cultural quirks, regulatory contexts, and regional market situations. The interests, requirements, and goals of regional investors are frequently taken into account by successful Indian initial public offerings (IPOs). They showed that the failure of IPOs in the Indian stock market might be caused by failing to connect with the target audience, whether because of a lack of understanding or a misalignment of goals. Ghosh (2013) highlighted a few rationales for whether "Initial Public Offerings" (IPOs) in the Indian stock market failed. It emphasized the difficulties of "financial inclusion" and the function of "microfinance" in fostering growth. For projects, including IPOs, to succeed, it was emphasized how crucial a strong financial environment and access to capital are. Claessens and Yurtoglu (2013) emphasized on comprehending "corporate governance" procedures in "emerging markets," which can showed the causes of "Initial Public Offerings" (IPOs) in the Indian stock market that failed. They emphasized how "corporate governance" procedures differ throughout "emerging markets," including India. Companies with weak "corporate governance" practices may have trouble luring prospective investors and may be viewed as higher risk, which could result in a higher risk premium.

Nahata et al. (2014) explored the impact of "institutional" and "cultural differences" on international venture capital investing in order to identify the causes of "Initial Public Offerings" (IPOs) in the Indian stock market that failed. They asserted that the success of IPOs in the Indian stock market can be impacted by variations in "institutional frameworks" and "cultural norms" between nations. For businesses looking to go public, different rules, laws, and governance procedures might provide difficulties. Additionally, the demand for IPOs may be impacted by cultural variations in investor behavior and risk tolerance. Companies that do not adapt to the regional "institutional" and "cultural" setting may find it difficult to attract investors and fail to go public.

Kaustia and Knupfer (2012) assessed how "peer performance" affected failed initial public offerings (IPOs) in the Indian stock market. They found that businesses considering an IPO are influenced by the success of their competitors in the market. Potential IPO candidates become wary and hesitant if their peers have failures or bad performance. Peer performance has an impact on IPO success because companies may postpone or decide against going public out of fear that they will repeat their peers' dismal results. According to Dutt et al. (2016), "business incubators" have a role to play in overcoming institutional weaknesses in developing nations. They showed that institutional weaknesses like shoddy regulatory systems can make IPOs fail. The support of early-stage enterprises and the mitigation of institutional barriers are essential functions of business incubators as open system intermediaries. The complexity of the IPO process can be difficult for businesses to understand, and they may face challenges that lead to IPO failures in the Indian stock market in the lack of efficient business incubators.

According to Beaulieu et al. (2015), crowdfunding has grown in popularity as a substitute source of money for businesses. They provided an approach to comprehend it. They emphasized the significance of comprehending various funding mechanisms. Due to the simplicity of use, the lack of strict legal restrictions, and the potential advantages of connecting with a larger investor base, businesses may decide to use crowdfunding instead of IPOs. Companies may choose other fundraising alternatives, which could result in fewer initial public offerings (IPOs) and probable failures in the Indian stock market as a result of this preference for crowdfunding.

Objective: To measure the reasons for Failure of Initial Public Offers in Stock Market.

Methodology: The researcher had considered 182 stock market experts to know their opinion for the reasons of failure of initial public offers in stock market. The survey was conducted with the help of a questionnaire. The researcher had collected the primary data through random sampling method and analyzed it using mean and t test statistical tools.

Findings

Table 1 Reasons of failure of initial public offers in stock market

S. No.	Statements	Mean Value	t value	Sig.
1.	Poor valuation or pricing of Initial Public Offers in stock market	3.19	2.608	0.005
2.	No interest and dull market response is the result of the offering price being judged by investors	3.13	1.796	0.037
3.	Investor caution and unwillingness to take part in IPOs result in lack of demand and possible failure	3.15	2.105	0.018

4.	Poor financial performance, low growth, lack of distinct business plan and competitive edge are the reasons	3.14	1.925	0.028
5.	Doubt and a failing IPO may be the outcomes of ineffective communication of these issues	3.16	2.236	0.013
6.	Unfavorable event damages investor confidence and casts doubt on the company's future prospects	3.17	2.336	0.010

Table 1 shows different reasons of failure of initial public offers in stock market. The respondent says that Poor valuation or pricing of Initial Public Offers in stock market with mean value 3.19, Unfavorable event damages investor confidence and casts doubt on the company's future prospects with mean value 3.17 and Doubt and a failing IPO may be the outcomes of ineffective communication of these issues with mean value 3.16. The respondent also says that Investor caution and unwillingness to take part in IPOs result in lack of demand and possible failure with mean value 3.15, Poor financial performance, low growth, lack of distinct business plan and competitive edge are the reasons with mean value 3.14 and No interest and dull market response is the result of the offering price being judged by investors with mean value 3.13. The value under significant column for all the statements related to different reasons of failure of initial public offers in stock market are significant with value below 0.05 after applying t-test.

Conclusion

There are many reasons why an Initial Public Offering (IPO) on the Indian stock market fails. The success of an IPO is significantly influenced by market dynamics and investor mood. Investors may be reluctant to engage in new offerings if the mood of the market as a whole is negative or unstable, which could result in a lack of demand for the IPO. Market circumstances, investor confidence, and industry-specific trends can all be impacted by economic variables, geopolitical developments, and industry-specific trends, which all affect the success of the IPO. Another crucial element is the company's valuation. Potential investors may refrain from making an investment if they feel that the firm is overvalued, and the IPO price is too high. On the other side, if the company has been overlooked, it can have trouble drawing in enough investors. To inspire investor confidence and guarantee a successful IPO, the proper pricing must be found. Financial reporting and disclosures from the company must be of high calibre and be transparent. Investors can be reluctant to take part in the IPO if there are questions about the veracity or comprehensiveness of the financial statements. To build trust with investors, proper governance procedures and clear financial reporting are required. An IPO's performance is greatly influenced by timing. An IPO may not be well-received if it is released while the market is weak or investors are unenthusiastic. The likelihood of a successful IPO can be considerably increased by picking a good moment when the market is favorable and investor confidence is high. In conclusion, a number of factors, such as market conditions, valuation, financial disclosures, and timing, might contribute to the failure of an IPO on the Indian stock market.

To reduce risks and improve the chances of a successful offering, companies planning to go public should carefully analyze these aspects and take the appropriate steps. The study was conducted to know the reasons of failure of initial public offers in stock market and found that Poor valuation or pricing of Initial Public Offers in stock market, Unfavorable event damages investor confidence and casts doubt on the company's prospects and Doubt and a failing IPO may be the outcomes of ineffective communication of these issues.

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