

## Determinants of Initial Public Offering Pricing: Study of IPO Underpricing

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Initial Public Offering (IPO) underpricing is the most crucial area which embedded with IPO pricing. IPO underpricing is one of the favorable occurrences to the company as well as to the investors who have invested on those shares. It will convince that company is successful at their IPO. In contrast it prompts that investors did not left their money on the table. Therefore, this study is to analyze whether there is an IPO underpricing exist in Colombo Stock Exchange and identify the determinants of IPO underpricing. Other than that this research paper addresses the impact of civil war towards the IPO underpricing. In specific, the study addresses the relationship between the IPO underpricing and offer price of IPO share, issue size, market capitalization at IPO date, Earnings per share (EPS) of previous 5 years before the prospectus are issued, debt equity (D/E) ratio of recent statement of financial position (SOFP), Net profit ratio of previous 5 years before the prospectus are issued, Oversubscription rate and Sector P/E ratio at IPO date. The results of the pilot study indicate some absence of ordinary least square (OLS) assumptions and contrary to the expectations of literature reviews in this area. Accordingly EPS, Oversubscription rate, Net profit margin became insignificant while it run the regression. And Market capitalization brakes the assumption of model free from multicollinearity. Therefore those are excluded from the final model and remaining four variables are considered as determinants of IPO underpricing. Accordingly offer price and issue size has negative relationship with IPO underpricing and others are positively related. These results are accepting the alternative hypotheses and consistent with the results of previous studies. Moreover this study observes that average IPO underpricing is increase in post war period than the prior to war period due to the economic and political stability after the war ends.

**Keywords:** *Initial Public Offering, Underpricing, Oversubscription, Offer Price, Colombo Stock Exchange (CSE)*