

**Determinants of Initial Public Offering Pricing in Colombo Stock Exchange:  
Study of Under-Pricing**

**M.H.N. Perera**

Department of Finance, University of Kelaniya, Sri Lanka

[mhasiniperera@gmail.com](mailto:mhasiniperera@gmail.com)

**Abstract**

Initial Public Offering (IPO) underpricing is the most crucial area which embedded with IPO pricing. IPO underpricing can define as increase the first day closing price of IPO share at market than its offer price. Merely IPO underpricing is one of the favorable occurrences to the company as well as to the investors who have invested on those shares. 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 supposed determinants throughout a regression analysis. By accepting the alternative hypothesis researcher posit that offer price and issue size has negative significant influence on IPO underpricing. And debt to equity (D/E) ratio, Sector P/E ratio, and cumulative average return of ASPI has significant positive relationship with IPO underpricing. The variables, Market capitalization, Earnings per share (EPS) ,Net profit ratio, Oversubscription rate are recognize as insignificant determinants in analyzing IPO underpricing in Colombo Stock Exchange since some absence of ordinary least square (OLS) assumptions and contrary to the expectations of literature reviews in this area. 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.

**Key Words:** *Initial Public Offering, underpricing, oversubscription, offer price, Colombo Stock Exchange.*