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A STUDY ON RISK RETURN ANALYSIS OF SELECTED BANK WITH SPECIAL REFERENCE TO NSE, INDIA

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ABSTRACT

Indian Banking Sectors is one of the major role in the country's economy. It has always been playing a major key role in prevention of the economic disaster from reaching horrible situation in the country. Risk is a concept that shows a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event. It has received huge appreciation for its strength, particularly in the wake of the latest worldwide economic disasters, which pressed its worldwide counterparts to the edge of fall down. The Indian Equity markets are extremely volatile. Equity Markets are volatile across the world but India has a higher level of volatility. Stock market risk is the tendency of stock prices to decrease due to the change in value of the market risk factors. Value of units or shares is directly related to the market value of those investments held by the stock market. Though banking and financial services sector funds have accelerated on generating superior risk adjusted returns until now, they suffer from the risk of portfolio concentration as a single stock accounts for equity portfolio in some gear. The market value of those investments will go up and down depending on the financial performance of the issuers and general economic, political, tax and market conditions. Standard market risk factors are stock prices, interest rates, foreign exchange rates, and commodity prices Banks play an important role in supporting economic growth and have proved to be more volatile than the pure diversified equity funds which make some of them a high risk proposition. Usually Equity Investments includes high risk at the same time it earns higher return unusually high returns may not be maintainable. Because of this, there is a high instability in the share price that reduces the real investor's interest. This study is focused to analyse the performance of the selected banks in the Indian Banking Sector to show the risk and return in a particular period of time.

Key words: Portfolio, Risk Return, Standard Deviation, Comparative Analysis

INTRODUCTION

The risk of investing in the banking sector does not appear to be subsiding. Bank share prices remain exceptionally volatile and ongoing regulatory developments continue to weigh on the sector. One important measure of risk is the beta for a bank. This combines the volatility of bank shares and their correlation with the equity markets in general. It is a key risk measure because it helps to set banks cost of capital and therefore the appropriate level of returns they should be targeting. This may be surprising. Given the substantial recapitalization of the banks across the world and the implementation of a raft of regulatory reforms, we may have expected risk levels across the sector to begin to fall by now. However, offsetting impacts including the

fallout from the Eurozone crisis (which impacts banks directly through holdings of Government bonds) and continued sector uncertainties have contributed to this continued elevated state. We must remember that the equity beta, by its calculation, is a lagging indicator of risk so it will take time for risk reductions to show in the empirical data, but the key questions remains of whether and by how much risk will reduce in the banking sector.

The future track of risk in the banking sector is of critical importance to banks, their shareholders and policy makers. Some envisage a "back to basics" world of low risk/low return utility banking. Others suggest that credit risk, interest rate risk and liquidity risk mean such a world is impossible to achieve – the fortunes of the banking sector will always be entwined with the broader economy.

Where we end up is crucially dependent upon the effectiveness of the banking reforms underway and the impact of leverage on the cost of capital for banks. In theory as more equity is used to finance a bank, the risks to that equity are dissipated, so the cost of equity should fall. There are obstructions to the theory, such as taxes and government involvement in the banking sector (through implicit guarantees), but the Bank of England showed empirically that leveraging effects should reduce the cost of equity for banks in Optimal Bank Capital and other risk reduction measures should also have an impact as reforms are implemented.

For an answer on where we should end up, we commend a recent PwC report: "Banking Industry Reform: A New Equilibrium". The report envisages a post- crisis equilibrium in which bank equity costs fall from current figures of around 12% to a range between 8%-10% following reform-driven reductions in bank leverage and a gradual return to financial market normality. Capacity overhang, competitive pressures, subdued underlying economic growth and a substantial adjustment and compliance cost burden will continue to impact performance severely in the short term, and keep long run equity returns to no more than 1-2% over equity costs thereafter. This is starkly different to the pre-crisis norms, where bank investors became accustomed to returns in the high teens, and will therefore require adjustment by both bank executives and investors.

STATEMENT OF THE PROBLEM

The severe global shutdown and recession has resulted in volatility of stock markets. There is no proper framework for the investors to analyse the risk profile of the stocks and the investors also not aware about the valuation of risk and return of stock.

OBJECTIVES OF THE STUDY

To analyse the rate of return of various banking sector over the period of five years.

To find the variance and standard deviation (risk) on each banking sector over the period of five years.

RESEARCH METHODOLOGY

Research Methodology is a systematic way of solving the problem. It includes the overall research design, the sampling procedure, data collection method and analysis procedure. The research design used in this study is Descriptive research. The major purpose of descriptive research is description of the state of affairs as it exists at present.

REVIEW OF THE LITERATURE

Awalakki&Archanna, (2021). The research paper investigates the impact of key accounting ratios, including ROE, ROA, P/E, P/B, P/S, and P/C, on stock prices of the National Stock Exchange over a 15- year period (2005-2020). The study aims to analyze how these financial indicators influence stock returns, emphasizing their importance for investors, creditors, and stakeholders in evaluating the financial condition and profitability of companies listed on the exchange.

Rahul Moolbharathi and Tukaram Sugandi (2021) "A Comparison Study On Risk And Return Analysis Of SelectedCompanies With Benchmark Index InNse". The research provides investors with insights into various statistical methods for assessing stock risk and return, with a focus on comparing index performance to benchmark indices. Additionally, it aims to determine the most favorable sector for risk and return investments. The primary goal is to analyze the

statistical variation of stocks and indices using regression analysis. Findings reveal that HDFC Bank exhibits higher risk and returns compared to other stocks. Notably, all equities in the portfolio have a beta of one, indicating efficiency in terms of risk and return among the selected market stocks.

DATA ANALYSIS AND INTERPRETATION

INDIAN BANK

Annual Rate of Return of Indian Bank:

$$\text{Return} = \frac{\text{Endingprice} - \text{Beginingprice}}{\text{Beginingprice}}$$

Table No. 1

Year	Opening price	Closing price	Annual rate Of return	Growth rate of Indian bank
2019-2020	163.28	99.82	0.123	1.123
2020-2021	98.1	272.96	0.556	1.556
2021-2022	276.9	294.24	0.213	1.213
2022-2023	312.84	261.61	0.167	1.167
2023-2024	269.64	55.05	0.041	1.041
TOTAL			1.1	6.1
Mean(Total Annual Rate of Return / No of Years)				0.22

(Source: Annual Report of Indian Bank 2019-2020 to 2023-2024from NSE India Ltd.)

Interpretation:

If an investor invest rupee 1 at the end of 2020, the investor would have earned rupees 6.1 at the end of 2024 i.e., the investor's total return is Rs.5.1.

Standard Deviation of Indian Bank:

$$\text{SDi} = \sqrt{\text{Variance}}$$

Table No. 2

Year	Annual return (p)	Q = p – average Annual return	Q^2
2019-2020	12.3	-9.7	94.09
2020-2021	55.6	33.6	1128.96
2021-2022	21.3	-0.7	0.49
2022-2023	16.7	-5.3	28.09
2023-2024	04.1	-17.9	320.41
TOTAL	99		1572.04
Variance ($\sum Q^2$/ n-1)		393.01	
Standard Deviation		19.82	

Interpretation

Indian bank return deviates about 19.82% from the average rate of return. So it is difficult to assess the future returns from the past returns.

STATE BANK OF INDIA

Annual Rate of Return of State Bank of India

Table No. 3

Year	Opening price	Closing price	Annual rate of return	Growth Rate
2019-2020	25.29	17.5	0.138	1.138
2020-2021	17.89	20.37	0.228	1.228
2021-2022	22.88	24.52	0.214	1.214
2022-2023	25.61	15.47	0.121	1.121
2023-2024	17.09	6.70	0.078	1.078
Total			0.78	5.78

Mean(Total Annual Rate of Return/ No of years)	0.156

(Source: Annual Report of Indian Bank 2019-2020 to 2023-2024from NSE India Ltd.)

Interpretation:

If an investor invests rupee 1 at the end of 2020, the investor would have earned rupees 5.78 at the end of 2024 i.e., the investor's total return is Rs.4.78.

Standard Deviation of State Bank of India:

Table No. 4

Year	Annual return (P)	Q = P- Average annual return	Q2
2019-2020	13.8	-1.8	3.24
2020-2021	22.8	7.2	51.84
2021-2022	21.4	5.8	33.64
2022-2023	12.1	-3.5	12.25
2023-2024	7.8	-7.8	60.84
TOTAL			161.81
Variance ($\sum Q2$/ n-1)		40.45	
Standard Deviation		6.36	

Interpretation:

State Bank of India return deviates about 6.36% from the average rate of return. So it is difficult to assess the future returns from the past returns.

FINDINGS OF THE STUDY:

Indian bank return deviates about 19.82% from the average rate of return. So it is difficult to assess the future returns from the past returns. Beta is more than 1 so it is more volatile than other banks. So it is high risk to invest in this security.

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Indian overseas bank return deviates about 61.69% from the average rate of return. So it is difficult to assess the future returns from the past returns. Beta is more than 1 so it is more volatile than market. So it is more risk to invest in this security.

Canara bank return deviates about 8.82% from the average rate of return. So it is difficult to assess the future returns from the past returns. Beta is less than 1 so it is less volatile than market. So it is less risk to invest in this security

SUGGESTIONS

Awareness: Investment in stock market is subject to limited market risk. So every investor should be aware of the risk.

Potentiality: Stock market is justified underground of potentiality. This is due to increasing volume, market expansion & rapid growth in comparison to cash market.

Benefits: There are several benefits of stock market. Among them, the major benefits are cheaper trading in comparison to the cash market, interest stimulation, cash settlement and low brokerage cost. This would help to attract a number of investors. Based on the Rate of Return, Indian bank and Indian overseas are best for investment. Since it has high Rate of Return compared to other banks.

CONCLUSION

The analysis of testing the relationship between risk and return in the Indian stock market

reveals that of all the different risk variables considered in the study, the distributional risk variables, variance and distribution, confirm the working of risk-return trade-off in the Indian context. Also, a positive association was exhibited between the security-market return correlation and the average rate of return during the period of study. The importance of beta as a measure of risk is also considered in the analysis, which shows that during the study period the beta values of the sample companies are stationary.

Hence it can be used for and considered as an important risk measurement in investment decision making process. It also exposes the relation between systematic risk and rate of return on equities in India. The presence of randomness of the return series of both monthly market and monthly security returns in India has proved that the Indian stock market is weakly efficient. It is noteworthy to express that the Indian capital market exhibits a positive risk- return relationship.

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