

A Study On Risk And Return Analysis With Reference To Public And Private Sector Banks

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ABSTRACT

In the current scenario interest rate are falling and fluctuation in the share market has put investors in confusion. Investors finds difficult to take decision on investment. The main objective of the study is to study on risk and return analysis of selected stocks in NSE NIFTY and to find the relation between market index and individual stock index and to study about the technical concepts those have a high importance in the market and to manipulate the investments by using the technical tools involved in the market. The conclusion is that the study does not suggest the universal best or worst stocks for investment, because ratings of the stocks must be based on the type of investment and the type of investor. An investor who is ready to bear high risk but expect high return will go such stocks where risk and returns are high. Whereas an investor with less risk bearing capacity will go for those stocks where the risk and return are low. Among all the bank shares taken for the study it is preferred to invest with Indian Overseas Bank as the risk is low and the return is high with the concerned bank for the last five years.

Keywords: Risk and return, Banking sector and Technical analysis.

Introduction:

Equity markets are which shares are issued and traded either through exchanges or over- the-counter markets. Also known as the stock market, it is one of the most vital areas of a market economy as it provides companies with

access to capital and investors with a slice of ownership in the company and the potential of gains based on the company's future performance.

Stock

Plain and simple, stock is a share in the ownership of a company. Stock represents a claim on the company's assets and earnings. As acquire more stock, our ownership stake in the company becomes greater. Whether shares, equity, or stock, it all means the same thing. The importance of being a shareholder is that we are entitled to a portion of the company's profits and have a claim on assets. Profits are sometimes paid out in the form of dividends. The more shares own, the larger the portion of the profits we get. The securities market has two interdependent segments: the primary (new issues) market and the secondary market.

- ❖ **Primary market** is where new issues are first offered, with any subsequent trading going on in the secondary market. The primary market provides the channel for sale of new securities.
- ❖ **Secondary market** refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market. Secondary market comprises of **equity** markets and the **debt** markets.

STATEMENT OF THE PROBLEM

In the current scenario interest rate are falling and fluctuation in the share market has put investors in confusion. Investors finds difficult to take decision on investment. This is primarily because investments are risky in nature and investors have to consider various factors like risk, return, volatility of share and liquidity before investing. Therefore the researcher aims to determine whether the investment performance of common stocks is related to the investment strategies based on their systematic and non systematic analysis. Thus risk and return analysis of selected sectors in NSE.

OBJECTIVES OF THE STUDY

1. To assess the growth of stocks of Select Public Sector Banks

during the five year period.

2. To know the stability of the Public Sector Bank's stocks
3. To have a view of the Public Sector Banks.
4. To know the comparative position of last five year in Public Sector Banks.

NEED OF THE STUDY

The probability that an actual return on an investment will be lower than the expected return. Financial risk is divided into the following categories: Basic risk, Capital risk, Country risk, Default risk, Delivery risk, Economic risk, Exchange rate risk, Interest rate risk, Liquidity risk, Operations risk, Payment system risk, Political risk, Refinancing risk, Reinvestment risk, Settlement risk, Sovereign risk, and underwriting risk.

A return is the gain or loss of a security in a particular period. The return consists of the income and the capital gains relative on an investment. It is usually quoted as a percentage. The need to is know about the risk and return of the companies related to NSE which will be useful or the investor to have a perception about the companies used for the study.

- 1) To assess the growth of stocks of Select Public Sector Banks during the five year period.
- 2) To know the stability of the Public Sector Bank's stocks
- 3) To have a view of the Public Sector Banks.
- 4) To know the comparative position of last five year in Public Sector Banks.

SCOPE OF THE STUDY

The scope of the present study is limited to the constituents of Public Sector Bank stocks in BSE SENSEX index. It intends to examine the relationship between risk and return in the Indian equity market. The study considers the testing of the relationship between the average rate of return and distributional risk variables namely, Mean, Standard Deviation of the returns distribution and security-market return correlation, & Coefficient of Determination Also the un-diversifiable risk properties was analyzed through Beta Coefficient & coefficient of Determination values (R^2). The risk variables are used to ascertain the reasons for the variability of returns on equities on ex-

ante basis. In addition to this, the yearly beta values are considered to measure the importance of risk by testing the stationary of beta coefficients in the market. The informational efficiency of the Indian stock market is tested in its weak form. In this study, we can predict shortfalls in the performance of the Public Sector Banks independent of market fluctuations. The fluctuation of the growth rate is also analyzed. This study shows the factors that influence the profitability and hence can look for anomalies. This study offers a good scope for decision making and formulating a future plan for investments.

The present study is used to evaluate the performance of the stock fluctuation and helps the investors to gain knowledge regarding the choice of portfolio for investment. The study is analyzed for the price movement and risk of selected stocks in NSE for the period from 1st April 2014 to 31st March 2019.

LIMITATIONS OF THE STUDY

1. The data is secondary in nature.
2. The study covers a period of only five year and the changes that took place before and after this period is not taken in to consideration.
3. The present study was attempted to study only the macro level variables with aggregate values. Hence, the findings of the study cannot be generalized and it cannot be used for the individual banks.
4. The study is limited to Systematic risk & return to test the risk return relationship on equity shares of Public Sector Banks.

RESEARCH METHODOLOGY

Research design: Descriptive research design is followed in the study in order to describe the current pricing movement and risk return situation of the selected stocks.

Tools for data collection: The data used for the research work is secondary data and was collected for a period of 3 years from January 2013 to April 2019. Secondary data have been collected from the National Stock Exchange (NSE) website.

Sampling universe

Data collection: The stratified sampling method is adopted and 10 top performing stocks of banks were taken for analysis.

Tools for analysis: Rate of return, Beta Coefficient and Compound Annual Growth Rate.

ANALYSIS AND INTERPRETATION

Table No: 1
Analysis of Average Return, Beta Value and CAGR of
State Bank of India 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
SBI	11.94	-0.17	0.02

During the five year period 2014 to 2019, the average return from the shares of the bank was 11.94%, which is not satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is 0.02% which indicates positive return to the share holders. State Bank of India has a beta of -0.17 based on the monthly returns during April 2014 to April 2019, which shows the slope of the monthly returns in relation to market returns (NSE NIFTY returns). A beta of -0.17, which is less than 1, indicates that the fluctuations in returns from the shares of the bank are less than the market. A beta less than 1 indicates that the security's price is theoretically less volatile than the market.

Table No: 2
Analysis of Average Return, Beta Value and CAGR of
Bank of Baroda 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Bank of Baroda	39.10	-0.29	0.00

The returns of Bank of Baroda enumerate a fluctuating trend over the five year period from 2014 to 2019. During the five year period 2014 to 2019, the average return from the shares of the bank was 39.10%, which is satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is 0.00% which indicates no return to the share holders. Bank of Baroda has a beta of -0.29 based on the monthly returns during

April 2014 to April 2019, which shows the slope of the monthly returns in relation to market returns (NSE NIFTY returns). A beta of -0.29, which is less than 1, indicates that the fluctuations in returns from the shares of the bank are negative than the market. A beta less than 0 indicates that the security's price is theoretically negative volatile than the market.

Table No: 3
Analysis of Average Return, Beta Value and CAGR of
Bank of India 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Bank of India	164.67	2.21	-0.11

The returns of Bank of India enumerate a fluctuating trend over the five year period from 2014 to 2019. During the five year period 2014 to 2019, the average return from the shares of the bank was 164.67%, which is satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is -0.01% which indicates negative return to the share holders. Bank of India has a beta of 2.21 based on the monthly returns during April 2014 to April 2019, which shows the slope of the monthly returns in relation to market returns (NSE NIFTY returns). A beta of 2.21, which is greater than 1, indicates that the fluctuations in returns from the shares of the bank are greater than the market. A beta greater than 1 indicates that the security's price is theoretically more volatile than the market.

Table No: 4
Analysis of Average Return, Beta Value and CAGR of
Central Bank 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Central Bank	35.04	1.37	0.01

Central Bank has a beta of 1.37 based on the monthly returns during April 2014 to April 2019, which shows the slope of the monthly returns in relation to market returns (NSE NIFTY returns). A beta of 1.37, which is greater than 1, indicates that the fluctuations in returns from the shares of the bank are greater

than the market. A beta greater than 1 indicates that the security's price is theoretically more volatile than the market.

Table No: 5
Analysis of Average Return, Beta Value and CAGR of
Canara Bank 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Canara Bank	86.68	1.93	-0.04

During the five year period 2014 to 2019, the average return from the shares of the bank was 86.68%, which is satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is -0.04% which indicates negative return to the share holders.

Table No:6
Analysis of Average Return, Beta Value and CAGR of
Andhra Bank 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Andhra Bank	60.48	1.78	-0.01

Andhra Bank has a beta of -0.01 based on the monthly returns during April 2014 to April 2019, which shows the slope of the monthly returns in relation to market returns (NSE NIFTY returns). A beta of -0.01, which is less than 0, indicates that the fluctuations in returns from the shares of the bank are less than the market. A beta less than 0 indicates that the security's price is theoretically less volatile than the market.

Table No: 7
Analysis of Average Return, Beta Value and CAGR of
Indian bank 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Indian bank	-3.47	1.72	0.07

During the five year period 2014 to 2019, the average return from the shares of the bank was -3.47%, which is not satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is 0.07% which indicates positive return to the share holders. Indian bank has a beta of 1.72 based on the monthly returns during April 2014 to April 2019, which show 1.72, which is greater than 1, indicates that the fluctuations in returns from the shares of the bank are more than the market. A beta greater than 1 indicates that the security's price is theoretically more volatile than the market.

Table No: 8
Analysis of Average Return, Beta Value and CAGR of
Punjab National Bank 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Punjab National Bank	95.23	1.95	-0.04

During the five year period 2014 to 2019, the average return from the shares of the bank was 95.23%, which is satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is -0.04% which indicates negative return to the share holders. Punjab National Bank has a beta of 1.95 based on the monthly returns during April 2014 to April 2019, which shows the slope of the monthly returns in relation to market returns (NSE NIFTY returns). A beta of 1.95, which is greater than 1, indicates that the fluctuations in returns from the shares of the bank are more than the market. A beta more than 1 indicates that the security's price is theoretically more volatile than the market.

Table No: 9
Analysis of Average Return, Beta Value and CAGR of
Union Bank of India 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Union Bank of India	-16.54	-0.29	0.10

Union Bank of India has a beta of -0.29 based on the monthly returns during April 2014 to April 2019, which shows the slope of the monthly returns in relation to market returns (NSE NIFTY returns). A beta of -0.29, which is less than 1, indicates that the fluctuations in returns from the shares of the bank are less than the market. A beta less than 1 indicates that the security's price is theoretically less volatile than the market.

Table No: 10
Analysis of Average Return, Beta Value and CAGR of
Vijaya Bank 2014 to 2019

Name of the bank	Average return (%)	Beta value	CAGR Value (%)
Vijaya Bank	25.02	1.22	0.01

During the five year period 2014 to 2019, the average return from the shares of the bank was 25.04%, which is satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is 0.01% which indicates positive return to the share holders.

Table No: 11
Coefficients of comparative analysis between NSE and public sector
banks taken for the study

Coefficients^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4687.981	394.928		11.870	.000
State Bank of India	19.90	2.646	.699	7.522	.000
Bank of Baroda	5.88	2.269	.111	2.595	.010
Bank of India	-5.31	1.399	-.265	-3.800	.000
Central bank	-4.54	2.889	-.062	-1.573	.117
Canara bank	0.37	1.569	.020	.237	.813

IDBI bank	-12.96	3.416	-.103	-3.794	.000
Indian Bank	6.07	1.328	.388	4.577	.000
Punjab National Bank	-6.69	3.113	-.169	-2.150	.033
Union Bank	0.28	1.265	.008	.221	.825
Vijaya Bank	-9.74	6.440	-.093	-1.513	.131
a. Dependent Variable: NSE					

Interpretation

NSE constant (4687.98)= State Bank of India (19.90)+ Bank of Baroda (5.88)+ Bank of India (-5.31)+ Central bank (-4.54)+ Canara bank (0.371)+ IDBI bank (-12.96)+ Indian Bank (6.07)+ Punjab National Bank (-6.69) + Union Bank (0.280)+ Vijaya Bank (-9.74).

It depicts that the banks State Bank of India, Bank of Baroda, Canara bank, Indian Bank and Union Bank are directly correlated to NSE and these banks have impact towards movements of NSE.

Table No: 12
Coefficients of comparative analysis between NSE and private sector banks taken for the study

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4967.755	230.786		21.525	.000
AXIS bank	2.36	.285	.205	8.309	.000
City Union Bank	3.73	1.564	.116	2.387	.018
Federal Bank	4.22	1.856	.076	2.278	.024
HDFC Bank	-.769	.108	-.218	-7.130	.000
ICICI Bank	10.03	.618	.336	16.236	.000
IDFC Bank	-12.06	1.777	-.104	-6.788	.000
Indusind Bank	-.065	.058	-.018	-1.128	.261

Karur Vysya Bank	3.88	1.174	.056	3.306	.001
Kotak mahindra Bank	-.352	.052	-.070	-6.831	.000
Yes bank	2.01	.629	.137	3.208	.002
a. Dependent Variable: NSE					

Interpretation

NSE constant (4967.73)= AXIS bank (2.36)+ City Union Bank (3.73)+ Federal Bank (4.22)+ HDFC Bank (-.76)+ ICICI Bank (10.03)+ IDFC Bank (-12.06)+ Indusind Bank (-.065)+ Karur Vysya Bank (3.88) + Kotak mahindra Bank (-.352)+ Yes bank (2.01)

It depicts that the banks AXIS bank, City Union Bank, Federal Bank, Karur Vysya Bank and Yes bank are directly correlated to NSE and these banks have impact towards movements of NSE.

FINDINGS

- ❖ The average return from the shares of SBI bank was 11.94%, which is satisfactory for the investors who had contributed expecting higher returns.
- ❖ The average return from the shares of the Bank of Baroda was 39.10%, which is satisfactory for the investors who had contributed expecting higher returns.
- ❖ With Bank of India the average return from the shares of the bank was 164.67%, which is satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is -0.01% which indicates negative return to the share holders.
- ❖ With central bank the average return from the shares of the bank was 35.04%, which is satisfactory for the investors who had contributed expecting higher returns. And also the CAGR value for the five year period is 0.01% which indicates positive return to the share holders.
- ❖ The average return from the shares of Canara bank was 86.68%, which is satisfactory for the investors who had contributed expecting higher returns.

- ❖ With Andhra bank the average return from the shares of the bank was 60.48%, which is a satisfactory for the investors who had contributed expecting higher returns.
- ❖ The average return from the shares of the Indian bank was -3.47%, which is not satisfactory for the investors who had contributed expecting higher returns.
- ❖ The returns of Punjab National Bank was 95.23%, which is satisfactory for the investors who had contributed expecting higher returns. Punjab National Bank has a beta of 1.95 based on the monthly returns during April 2014 to April 2019, which shows the slope of the monthly returns in relation to market returns (NSE NIFTY returns).
- ❖ The average return from the shares of Union Bank of India was -16.54%, which is not satisfactory for the investors who had contributed expecting higher returns.
- ❖ The average return from the shares of Vijaya bank was 25.04%, which is satisfactory for the investors who had contributed expecting higher returns.
- ❖ The banks State Bank of India, Bank of Baroda, Canara bank, Indian Bank and Union Bank are directly correlated to NSE and these banks have impact towards movements of NSE.

SUGGESTIONS

- ❖ It is not preferred to invest with SBI as there is negative return for the last five years.
- ❖ It is preferred to invest with IOB bank as there is positive return for the last five years.
- ❖ It is preferred to invest with the this bank as there is positive return for the last five years.
- ❖ Though the risk is been positive when compared to the market it is preferred to invest based on the investors risk only based on the risk involved with Indian bank.
- ❖ It is preferred to invest with Canara bank as there is positive return for the last five years.

- ❖ It is preferred to invest with Andhra bank as there is positive return for the last five years.
- ❖ It is preferred to invest with BOB as there is positive return and CAGR was also positive for the last five years. As the risk is negative it shows that the bank script dose not goes along with the market so its not preferred to invest with this bank based on the risk factor.
- ❖ It is not preferred to invest with Dena bank as there is negative return for the last five years.

CONCLUSION

The conclusion is that the study does not suggest the universal best or worst stocks for investment, because ratings of the stocks must be based on the type of investment and the type of investor. An investor who is ready to bear high risk but expect high return will go such stocks where risk and returns are high. Whereas an investor with less risk bearing capacity will go for those stocks where the risk and return are low. Among all the bank shares taken for the study it is preferred to invest with Indian Overseas Bank as the risk is low and the return is high with the concerned bank for the last five years.

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