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A Study on Risk and Return Analysis of Indian Banking Sector

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Abstract: This study has been undertaken to investigate the risk and return of banking sectors in India. To analyze the risk, standard deviation and Variance are used. The study also helps to find the volatility of the companies. So that the investor can make best investment decisions.

***Index Terms* – Risk, Return, Rate of Return, Mean, Beta.**

I. 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.

II. REVIEW OF LITERATURE

Porter (2000) explains the effect of combining banking and non-banking. Financial activities on banking sectors has risk and return. In general, activities such as securities activities, insurance agency, and insurance are all risker and more profitable than banking activities. Those activities has the potential to provide diversification benefits to banking organizations. Even though Real Estate activities are benefit than banking sectors, Real estate development are quite riskier.

Zebras and Cabman (2000) presented a set of summary risk and return statistics. For asset classes those are used as benchmarks for establishing allocation levels and a subsequent article.

Raghavan R S (2000) thinks that risk are related to return. To get adequate returns minimum risks are considered. Returns can be higher or improved by taking more financial and operating risks. But the environmental risks typically do not increase investment returns.

David P, Yoshikawa T, Chari M D R and Rasheed A A (2006) found that foreign ownership is more positively associated with strategic investments for gain opportunities. Among both types of strategic investments studies, the relationship is robust.

Dr Muthu Gopalakrisnan M & Dr Ramanathan K V (2013) studied Indian stock market price fluctuations. The volatility is needed to assume the risk on investment. Researcher finds that the selected stock volatility. This analysis helps in identifying volatility relationship during pre and post recession period.

III. OBJECTIVE OF STUDY

PRIMARY OBJECTIVE

To study about the risk and return of share prices in banking sector for ICICI Bank, HDFC Bank, Indian Overseas Bank, South Indian Bank, IDBI Bank, Canara Bank, Indian Bank.

SECONDARY OBJECTIVE

1. To analyze the rate of return of various banking sector over the period of five year.
2. To find the variance and standard deviation (risk) on each banking sector over the period of five year.
3. To compare the risk and rate of return of different banking sector.
4. To compare the beta of the banking sector.
5. To identify the best investment from selected banks

III. 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. The data for this study is Secondary Data. The data is collected from secondary sources such as various websites, journals, newspapers, books, etc. Period of Study: 2015-2016 to 2019-2020

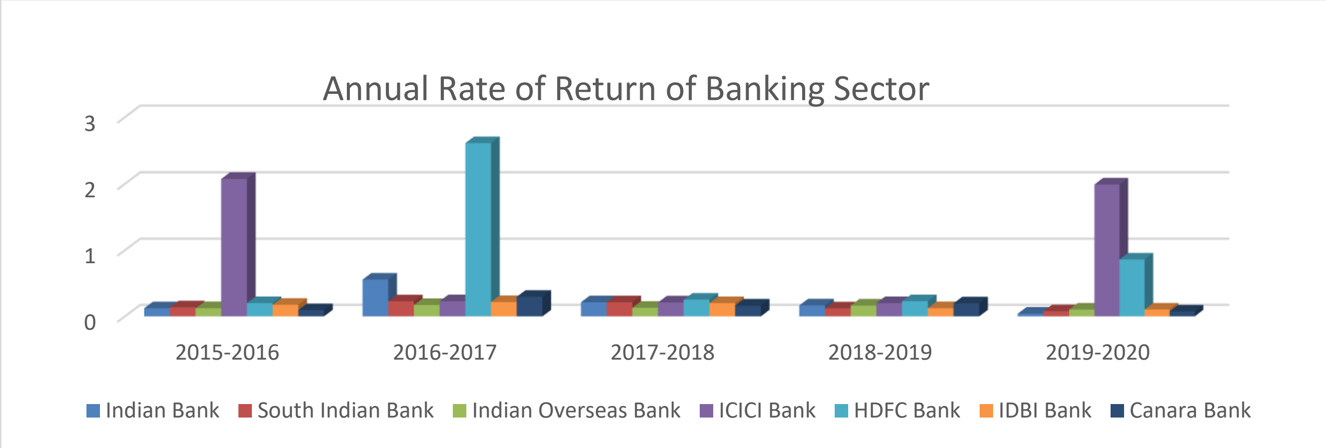
VI. Statistical Tool to be used

- Rate of Return
- Sample Mean
- Standard Deviation
- Variance
- Beta

IV. DATA ANALYSIS AND INTERPRETATION

1. RATE OF RETURN

Year	Indian Bank	South Indian Bank	Indian Overseas Bank	ICICI Bank	HDFC Bank	IDBI Bank	Canara Bank
2015-2016	0.123	0.138	0.124	2.075	0.201	0.175	0.095
2016-2017	0.556	0.228	0.172	0.23	2.611	0.217	0.296
2017-2018	0.213	0.214	0.131	0.211	0.253	0.201	0.164
2018-2019	0.167	0.121	0.164	0.201	0.230	0.124	0.197
2019-2020	0.041	0.078	0.103	1.99	0.860	0.103	0.075



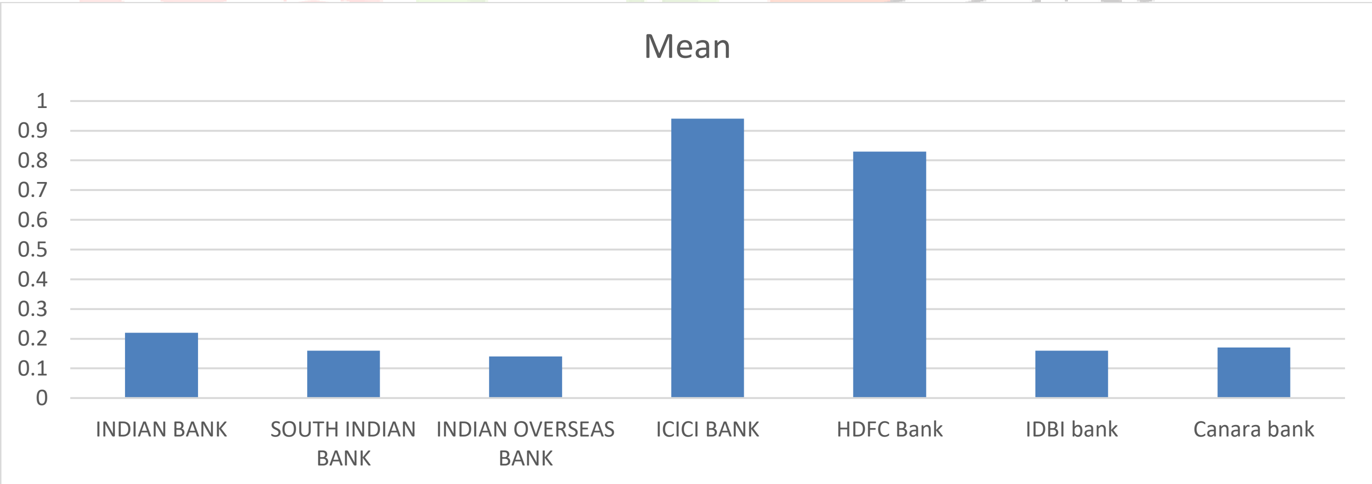
Interpretation:

The above table shows that HDFC bank and ICICI Bank annual return were in high position compare to all other companies for overall period.

In the year 2016-2017 the high rate of return that is 2.611, were recorded by HDFC bank shares. And lowest annual rate of return were recorded by Indian Bank that is 0.041 in 2019-2020.

2. MEAN

NAMES OF THE BANKS	Mean
INDIAN BANK	0.22
SOUTH INDIAN BANK	0.16
INDIAN OVERSEAS BANK	0.14
ICICI BANK	0.94
HDFC Bank	0.83
IDBI bank	0.16
Canara bank	0.17

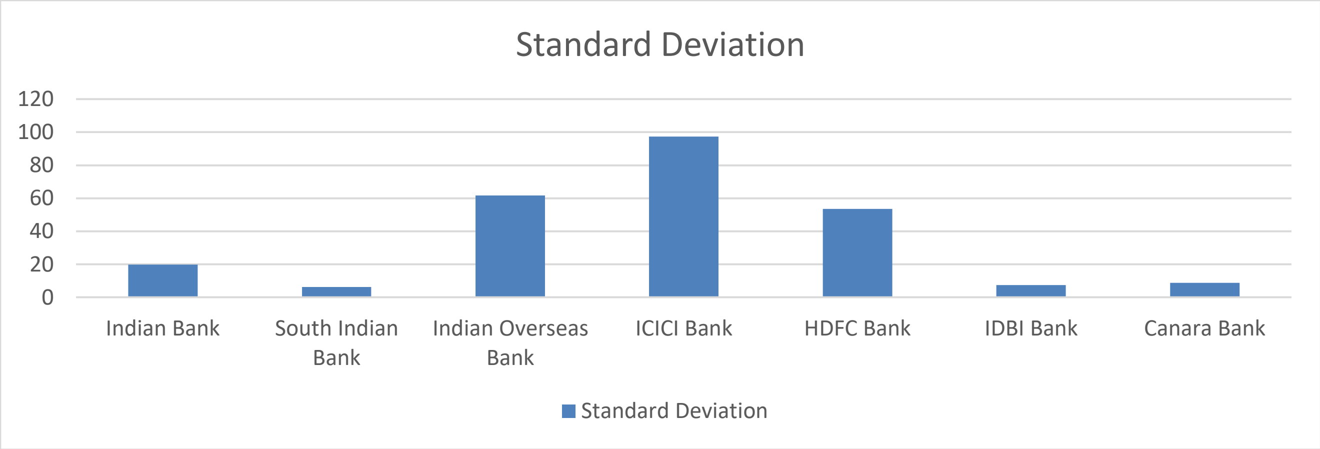


Interpretation

The above table shows the comparative annual mean of the banking sector companies for the past 5 years. It shows that ICICI Bank and HDFC Bank has the highest compared to all other companies for overall period.

3. STANDARD DEVIATION

Name of the companies	Standard Deviation
Indian Bank	19.82
South Indian Bank	6.36
Indian Overseas Bank	61.69
ICICI Bank	97.35
HDFC Bank	53.52
IDBI Bank	7.43
Canara Bank	8.82

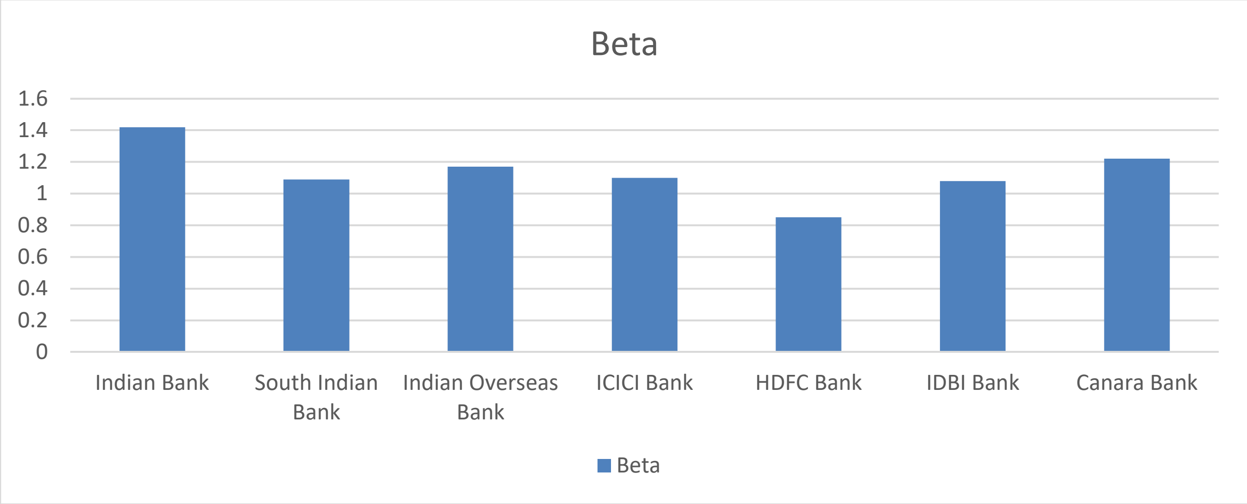


Interpretation

The high standard deviation shows that the investment is more volatile and more risky. Here, South Indian Bank and IDBI Bank has low significance difference. So they are less volatile and has a low risk.

4. BETA

Name of the companies	Beta
Indian Bank	1.42
South Indian Bank	1.09
Indian Overseas Bank	1.17
ICICI Bank	1.10
HDFC Bank	0.85
IDBI Bank	1.08
Canara Bank	1.22



Interpretation

The Beta of Indian Bank, South Indian Bank, ICICI Bank, Indian Overseas Bank, Canara Bank and IDBI Bank is more than one. Therefore, these banks are more volatile than the market. The Beta of HDFC Bank is lesser than one. Hence, it is less volatile.

VII. FINDINGS, SUGGESTIONS, CONCLUSION

FINDINGS & SUGGESTION

1. Based on the Rate of Return, ICICI Bank and HDFC bank are best for investment. Since it has high Rate of Return compared to other banks.
2. Since HDFC Bank has low risk compared to ICICI Bank, in comparison, HDFC Bank is best for investment.

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.

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