A STUDY ON THE PERFORMANCE ANALYSIS OF SELECTED PRIVATE BANKS DURING COVID-19

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Abstract

Risk and return analysis plays a most important role while making any investment decision. Every rational investor, analyze the risk and return before investing in any stock or security. The investment process must be considered in terms of risk and return. It is generally believed that if the investor wants to earn higher return then he will have to take more risk for earning higher return, if he doesn't want to take higher risk then he can't earn higher return. So, higher return with high risk. The main objective of the study is to give investors a basic idea of investing into the Banking sectors funds and encourage them to invest in those areas where they can maximize the return on their capital. In the capital market, the equity market plays a huge role. And it's volatile in nature too. Banking sector equity market has volatility and less return on investment in some of the banks have more volatility in investment also. The investors identify the minimum risk and maximum return on investment decisions through this analysis. Understanding, the risk involved in the investment helps to maximize returns. This study helps investors to understand from the previous behavior of selected data to make the best decision through market volatility; the primary objective of this study is to analyze the performance of banking securities based on its risk and return during the study period.

Keywords Risk, Return, Banking Industries

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1. Introduction

Risk and Return Analysis in Equity Share is considered to be two sides of the Investment Coin. For most investors, their interest in investment is largely pecuniary to earn more return on their invested amount. However, selecting stocks exclusively on the basis of maximization of return is not enough. The fact that most investors do not place available funds into the one, two or even three stocks promising the greatest return suggest that order factor must be considered besides return in the selection process. Investors not only like return, they dislike risk. Their holding of an assortment of securities and portfolios attest to that fact. To say that investors like return and dislike risk is, however, simplistic. To facilitate our job of analysing securities and portfolios within a return risk context, we must begin with a clear understanding of risk and return. In the current pandemic situation, dividend (earning) rates are falling and fluctuation in he capital marker has put investors in confusion. One finds it difficult to take decision on investment. This is primarily, because of investments are risky in nature and investors have to consider various factors before investing in investment avenues. These factors include risk, return, volatility of shares and liquidity. The main objective of comparing investment in different bank share prices is to analyse the performance of bank share by using risk and return as a parameter. Historical data were taken for calculating risk, return. Financial market is often hard to understand. Stock prices are highly volatile and difficult to predict, requiring that market participants and researchers devote significant resources to understanding the behaviour of expected returns relative to the risk of stock market investment.

Return is primary motivating force that drives investment. It represents the reward for undertaking investment. Since the game of investing is about returns (after allowing for risk), measurement of realized (historical) returns (ex. Post facto) is necessary to access how well the investment manager done. In addition, historical returns are often used as important input in estimating future (prospective) return. The future is uncertain. Investors do not know with certainty whether the economy will be growing rapidly or be in recession. Investors do not know what rate of return their investments will yield. Therefore, they base their decisions on their expectations concerning the future. The expected rate of return on a stock represents the mean of probability distribution of possible future returns on the stock. The objective of any investor is to maximize expected returns from his investments, subject to various constraints, primary risk return for undertaking the investment.

Modern banking in India originated in the mid of 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770 and liquidated in 1829-32; and the General Bank of India, established in 1786 but failed in 1791.The largest and the oldest bank which is still in existence is the State Bank of India (SBI). It originated and started working as the Bank of Calcutta in mid-June 1806. In 1890, it was renamed as the Bank of Bengal. This was one of the three banks founded by a presidency government; the other two were the Bank of Bombay in 1840 and the Bank of Madras in 1843. The three banks were merged in 1921 to from the Imperial Bank of India, which upon India’s independence, became the State Bank of India in 1955. For many years, the presidency banks, had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934. 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969, the Government of India nationalized 14 major private banks; one of the big banks was Bank of India. In 1980, 6 more private banks were nationalized. These nationalized banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.

The Indian banking sector is broadly classified into scheduled and non-scheduled banks. The scheduled banks are those included under the 2nd Scheduled banks are further classified into: nationalized banks; State Bank of India and its associates; Regional Rural Banks (RRBS); foreign banks; and other Indian private sector banks. The SBI has merged its Associate banks into itself to create the largest Bank in India o 1 April 2017. With this merger SBI has a global ranking of 236 on Fortune 500 index. The term commercial banks refer to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949. Generally, the supply, product range and reach of banking in India is fairly Mature-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State Bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development (NABARD) with facilities like microfinance.

Statement of the Problem

Investment in the stock market involves higher risk. At the same time, it brings comparatively higher return than any other investment opportunities. The return on an investment portfolio helps an investor to evaluate the financial performance of the investment. An investor deploys his fund in any securities after analysing the risk and expected return in that particular script. Risk is a probability that an investment differs from actual return. Usually higher the risk, higher will be return, lower the risk, lower will be return. Indian investors have been constantly investing their surplus amount in stock market even during pandemic situations when the market was entirely volatile. In this situation, an attempt has been made by the researchers to find the risk associated with individual bank security along with their respective volatility and return, thus studied its performance during the research period.

Focus of the Study

Following are the objectives of the present study.

1. To identify and examine the Risk and Return relationship of selected Private companies shares of bank sector to analyse its performance.

2. To compare the fluctuation in the selected stock to the market index to have a better investment objective

3. To examine the relationship between the Nifty and the selected Bank stocks.

2. Research Methdology

Nature of research	Descriptive research
Data used	Secondary data
Data collection Instrument	Moneycontrol.com & Annual Report of concerned Bank
Sample Size	20 Private Banks
Tools used	Standard Deviation Correlation Co-efficient of Variation R-Square Beta
Period of the Study	2021-22 - During Covid

REVIEW OF LITERATURE

This part of the review gives details of previous studies on investments is the risk return relationship.

Grewal S.S and Navjot Grewall revealed some basic investment rules and rules for selling shares. They warned the investors not to buy unlisted shares, as Stock Exchanges do not permit trading in unlisted shares. They caution not to hold the shares for a long period, expecting a high price, but to sell when ever one earns a reasonable reward.

Jack Clark Francis revealed the importance of the rate of return in investments and reviewed the possibility of default and bankruptcy risk. He opined that in an uncertain world, investors cannot predict exactly what rate of return an investment will yield.

Bhalla V.K." reviewed the various factors influencing the equity price and price eamings ratio. He is of the opinion that equity prices are affected primarily by financial risk considerations that, in turn, affect earnings and dividends. He also stated that market risk in equity is much greater than in bonds, and it influences the price also.

Suseela Subramanya. Vcommented on the risk management processes of banks. She revealed that banks need to do proper risk identification, classify risks and develop the necessary technical and managerial expertise to assume risks. Embracing scientific risk management practices will not only improve the profits and credit management processes of banks, but will also enable them to nurture and develop mutually beneficial relationships with customers. She concluded that the better the risk information and control system, the more risk a bank can assume prudently and profitably.

Indu Salian reviewed risk management of the financial sector. She opined that managing financial risk systematically and professionally becomes an important task, however difficult it may be. All risks are to be monitored within reasonable limits.

Rajagopala Nair and Elsamma Joseph revealed the various risks experienced by investors in corporate securities and the measures adopted for reducing risks. They opined that calculated risk might reduce the intensity of loss of investing incorporate securities. As per their study, many investors are holding shares of those companies that are non-existent at present. They opined that investors may accept risks inherent in equity, but they may not be willing to reconcile to the risk of fraud.

DATA ANALYSIS AND INTERPRETATION

The secondary data regarding the various private banks have been collected, analysed and presented in the following tables.

TABLE: 1 PERFORMANCE ANALYSIS OF PRIVATE BANKS

S. No	Banks/Tools	Average Return	Market Return	Standard deviation	Coefficient of variation	Correlation	Beta	R-square
1	Bandhan Bank	-16%	6%	2.46	-15.38	0.50	0.80	22%
2	City Union Bank	-10%	6%	1.76	-5.68	0.54	0.66	26%
3	DCB Bank	-16%	6%	2.21	-7.23	0.50	0.76	25%
4	Federal Bank	9%	6%	2.22	4.05	0.65	1	43%
5	HDFC Bank	2%	6%	1.51	1.32	0.82	0.85	66%
6	ICICI Bank	15%	6%	1.97	7.61	0.87	1.17	76%
7	IDFC Bank	12%	6%	2.62	4.58	0.48	0.87	23%
8	Indusind Bank	3%	6%	2.54	1.18	0.67	1.17	45%
9	Karur Vysya Bank	1%	6%	2.70	0.37	0.40	0.75	16%
10	Kodak Mahindra Bank	-3%	6%	1.70	-1.76	0.69	0.81	48%
11	Karnataka Bank	5%	6%	2.55	1.96	0.36	0.63	13%
12	RBL Bank	2.67%	6%	3.07	0.2	0.37	0.04	267%
13	South Indian Bank	-1.06	6%	2.67	-39.07	0.20	0.37	4%
14	Yes Bank	-8%	6%	2.64	-3.03	0.38	0.68	14%
15	AU Small Finance Bank	11%	6%	2.89	3.81	0.51	1.01	26%
16	Ujjivan Small Finance Bank	-28%	6%	2.55	-11.03	0.31	0.54	10%
17	IDBI Bank	21%	6%	3.45	6.01	0.35	0.82	12%
18	Axis Bank	5%	6%	1.91	2.4	0.79	1.04	63%
19	Equitas Small Finance Bank	23%	6%	2.89	7.82	-0.25	-0.50	6%
20	Dhanalaxmi Bank	6%	6%	3.07	1.98	0.21	0.44	4%

3. RESULTS ON AVERAGE RETURN AND STANDARD DEVIATION

While comparing the market return, the average returns of Federal bank, ICICI bank, IDFC bank, AU Small Finance bank, IDBI bank and Equitas Small Finance bank are more and it is understood that these banks performed well during the pandemic period also. The standard deviation of these banks ranges between 2 and 3 which also states that there is high risk and high return for these securities.

RESULTS ON CORRELATION AND BETA VALUE

Correlation coefficients whose magnitudes are between 0.3 and 0.5 indicate variables which have a low correlation. So it is found that Karur Vysya Bank, South Indian Bank, Dhanalaxmi Bank, IDBI Bank, Yes Bank, RBL and Karnataka Bank have low correlation.

Correlation coefficients whose magnitudes are between 0.5 and 0.7 indicate variables which can be considered moderately correlated. It is found that the Correlation coefficients of City Union bank, DCB, Federal bank, IDFC bank, Indusind bank, Kodak Mahindra bank, AU Small Finance bank, and Ujjivan bank indicates variables which can be considered moderately correlated.

Correlation coefficients whose magnitudes are between 0.7 and 1 indicate variables which have a strong positive relationship. HDFC bank, ICICI bank and Axis bank have a strong positive relationship between variables.

A beta of less than 1 means it tends to be less volatile than the market and a beta of more than 1 tends to be more volatile than the market. The beta value of Bandhan bank, City union bank, DCB bank, HDFC bank, Kodak Mahindra Bank, Karur Vysya Bank, IDFC Bank, Karnataka Bank, RBL Bank, South Indian Bank, Yes Bank, Ujjivan Small Finance Bank, IDBI Bank and Dhanalaxmi Bank is less than 1, so it found that these stocks are less volatile than the market and the beta value of remaining stocks are more than 1, these stocks are more volatile than the market.

RESULTS OF R SQUARE VALUE

R-square is a measure of the correlation of the stock's returns to the benchmark's returns.

1-40% = Low correlation between the stock's returns and the benchmark's returns.

40-70% = Average correlation between the stock's returns and the benchmark's returns.

70-100% = Good correlation between the stock's returns and the benchmark's returns

It is inferred that the R Square value of ICICI Bank, RBL Bank has been higher, The R Square value of Federal Bank, HDFC, Indusind Bank, Kotak Mahindra Bank, Axis Bank has been average and the R Square value of Bandhan Bank, City Union Bank, DCB Bank, IDFC Bank, Karur Vysya Bank, South Indian Bank, Karnataka Bank, Yes Bank, AU Small Finance Bank, Ujjivan Bank, IDBI Bank, Dhanalaxmi Bank, Equitas Small Finance Bank has been low.

SUMMARY OF FINDINGS

This study was conducted to find out the risk, return analysis of banking sectors stock. The major outcomes of the study, suggestive measures and conclusion are detailed as below.

From the analysis, it is found that some banks beat the market return during this pandemic situation and some banks do not. Hence, the researchers take only the banks which beat market return and also recommends considering the top 5 best performing banks during this covid-19. During the covid-19 also, some banks stand in the market fluctuation, so that the researchers recommend those banks which performed well even in the new normal market.

TABLE: 2 PERFORMANCES OF BANKS - RANKS

SI NO	Name of the Bank	Average Return	Market Return	Rank
1	IDBI Bank	21%	6%	II
2	ICICI Bank	15%	6%	III
3	Equitas Bank	23%	6%	I
4	IDFC Bank	12%	6%	IV
5	AU Small Bank	11%	6%	V

SUGGESTIONS

Based on the analysis and findings of the study, the following suggestions have been made which would help the Banking sector as well as Capital market investors.

- Most of the investors are new generation investors with average level of knowledge. It is advised that the private sector stocks can provide informant to investors with details.
- It is suggested that, to improve the awareness among investors and to attract more investment in banking stocks.
- Diversification is a safe method of risk management. Diversifying the portfolios will help to avoid the future risks. A well-functioning regulatory and risk monitoring system will avoid risks while investing.
- Investors should give importance to fundamental analysis and not rely on technical analysis before investing in securities.
- It is also suggested that holding two or more securities will reduce the unsystematic risk.
- If the investor wants to invest in the stocks with lower risks and positive returns, he is

suggested to invest in those securities whose Beta is less than +1 .00. Stocks having a Beta of less than +1.00 would be considered as more conservative investments.

4. Conclusion

The objective of maximizing return can be pursued only at the cost of reducing risk. While selecting the stock for investment, the investor has to consider both return potential and the risk involved. The empirical evidence shows that generally there is a high correlation between risk and return. In the recent past, the market has reached great heights as a result expansion of business and much more of globalization, and the increased percentage of Foreign Direct Investment has a direct effect on the demand and supply of the shares of the shares of a particular company. In this way the index of the stock market has reached the maximum. With the boom in the market there are many investors who are willing to take more risk. Financial sector is booming and the need for Risk-Return Analysis is growing even during pandemic situation. Also because of very tricky stock market behaviours it has become mandatory to manage portfolio so as to reduce the risk while maximizing the returns. Taking into consideration the investors risk return requirements, portfolio should be constructed and reviewed regularly. The analysis of testing the relationship between risk and return in the bank equity shares reveals that of all the different risk variables considered in the study it confirms the working of risk return trade-off in the equity. Also a positive association was exhibited between the security market return correlation and the average rate of return during the pandemic period of the study.

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