



# International Journal of Research Publication and Reviews

Journal homepage: [www.ijrpr.com](http://www.ijrpr.com) ISSN 2582-7421

## Risk and Return Analysis of Selected Listed Banking Companies in NSE & BSE

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### 1. Abstract and Introduction :

The Indian stock market plays a pivotal role in the nation's financial infrastructure, acting not only as a mirror reflecting economic sentiment but also as a platform for wealth creation. Among various sectors, the banking industry stands out for its sensitivity to economic shifts, monetary policy changes, and interest rate movements. This article provides a comprehensive summary of a research study focused on the risk and return dynamics of selected banking sector stocks listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) between 2013 and 2024.

The analysis revolves around eight banking stocks — four from each exchange — which were evaluated for their historical performance using standard financial metrics. These metrics include mean returns, standard deviation, beta values, correlation coefficients, and covariance coefficients, enabling a deeper understanding of the risk-return trade-off in the Indian banking sector.

The relevance of this study is underscored by the critical role banking plays in India's capital markets and economic development. As investors increasingly seek data-driven decisions in uncertain financial climates, the research aims to support better portfolio management and more informed investment strategies.

### 2. Objectives and Scope of the Study-

The core objective of this study is to measure and interpret the risk and return characteristics of selected banking stocks. This includes:

- Evaluating stock performance across a 12-year period.
- Calculating key statistical indicators to determine volatility and investment potential.
- Comparing returns of banking equities against benchmark indices (Sensex and Nifty).
- Helping investors identify the most stable and profitable stocks for investment.

The scope is confined to eight prominent Indian banks: Axis Bank, ICICI Bank, City Union Bank, Yes Bank, State Bank of India (SBI), IndusInd Bank, HDFC Bank, and Kotak Mahindra Bank. These were chosen based on their turnover, market capitalization, and representation on their respective stock exchanges.

The study also emphasizes the investor's perspective, particularly how risk tolerance can influence investment choices. With data sourced from credible financial portals and analyzed using robust statistical tools, the scope extends beyond mere performance reporting — it provides actionable insights.

### 3. Research Methodology-

The methodology of this study is rooted in a quantitative framework. It involves the collection and analysis of secondary data from reputable sources such as MoneyControl.com and other financial databases. The study covers a 12-year period from 2013 to 2024 to ensure adequate data representation across various market cycles, including bullish and bearish trends.

A purposive sampling method was adopted to select eight top-performing banking stocks, with four listed under NSE and four under BSE. The selection was based on market turnover, financial relevance, and representation of both public and private banking segments.

Key statistical tools used in the study include:

- Total Returns Calculation
- Mean Returns (Average)
- Standard Deviation (Risk Indicator)
- Beta (Market Sensitivity)
- Correlation Coefficient (Interdependence)
- Covariance Coefficient (Movement Similarity)

This methodology provides both descriptive and inferential insights, allowing investors to evaluate individual stock behavior and inter-stock relationships.

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#### 4. Literature Review Summary-

This study builds on prior research into stock market behavior, especially within the Indian financial sector.

Key contributions include:

- Sensarma & Jayadev (2009): Found that risk management metrics significantly affect bank stock returns.
- Chaturvedi & Khare (2012): Revealed that demographics influence investment awareness and behavior.
- Zarei & Fathi (2012): Explored how financial risk impacts Return on Equity in banks.
- Narayan Gaonkar (2015): Used CAPM to assess systematic risk across NSE stocks.
- Mallikarjunappa & Naveen (2016): Analyzed beta across CNX Bank Nifty stocks to understand market movement.

These studies laid the groundwork for evaluating banking stocks through statistical performance indicators.

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#### 5. Overview of the Indian Banking Sector-

India's banking sector includes public sector banks, private banks, foreign banks, and small finance banks. Since liberalization, it has evolved into a robust and digitized system, bolstered by reforms like UPI, Jan Dhan Yojana, and FinTech growth.

As of 2024, the sector includes:

- 13 Public Sector Banks
- 21 Private Sector Banks
- 44 Foreign Banks
- 12 Small Finance Banks

The sector remains a cornerstone of India's economic development and capital market performance, making it an ideal candidate for risk-return analysis.

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#### 6. Bank Profiles (Part 1)

- Axis Bank: A top private bank offering diverse financial services with strong fundamentals.
- ICICI Bank: A multinational financial leader with solid market capitalization.
- City Union Bank: A regional bank with stable returns and consistent operations.
- Yes Bank: A high-risk bank with volatile performance, recently undergoing restructuring.

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#### 7. Bank Profiles (Part 2)

- SBI: India's largest bank and a public sector bellwether.
- IndusInd Bank: A fast-growing private bank known for digital initiatives.
- HDFC Bank: A leader in stability and consistent returns.
- Kotak Mahindra Bank: A well-diversified financial services provider with strong earnings growth.

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#### 8. Return Analysis

Average annual returns (2013–2024) were calculated. Key findings:

- City Union Bank: 25.23%
- Kotak Mahindra Bank: 21.38%
- HDFC Bank: 20.7%
- Axis Bank: 15.3%
- ICICI Bank: 14.9%
- Yes Bank & IndusInd Bank: 5.95%
- SBI: 6.22%

Private banks outperformed, with City Union Bank leading in returns.

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#### 9. Risk Analysis – Standard Deviation

Standard deviation indicates risk. Higher deviation means more volatility.

- Yes Bank: 52.41%

- IndusInd Bank: 41.77%
- Axis Bank: 36.69%
- ICICI Bank: 33.33%
- City Union Bank: 30.88%
- SBI: 28.12%
- Kotak Mahindra: 25.17%
- HDFC Bank: 19.78%

Yes Bank had the highest volatility; HDFC had the lowest.

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## 10. Beta Analysis – Market Sensitivity

Beta reflects a stock's movement compared to the market.

- Yes Bank: 1.52 (Highly volatile)
- IndusInd Bank: 1.33
- Axis Bank: 1.21
- ICICI Bank: 1.15
- City Union Bank: 0.96
- Kotak Mahindra Bank: 0.91
- SBI: 0.87
- HDFC Bank: 0.79 (Most stable)

Low-beta stocks like HDFC and SBI are safer in volatile markets.

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## 11. Correlation & Covariance Analysis

Correlation and covariance are essential for understanding the relationships between selected banking stocks.

- **Correlation** determines how two stocks move in relation to each other. A correlation close to +1 indicates strong positive association.
- **Covariance** shows the directional relationship between the returns on two assets.

In this study, most banking stocks had **positive correlations**, indicating similar directional movement. For example, HDFC Bank and ICICI Bank had a high correlation, reflecting the impact of similar market and economic factors.

The covariance results aligned with correlation patterns, reaffirming the **interdependence of major bank stocks**, especially within the same market conditions.

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## 12. Summary of Findings

- Private sector banks such as HDFC, Kotak Mahindra, and City Union delivered higher average returns.
- HDFC Bank exhibited the most stable performance with low risk and steady growth.
- Yes Bank and IndusInd Bank showed high volatility, making them riskier for conservative investors.
- SBI, while a major public sector bank, delivered modest returns with moderate risk.
- Stocks with high beta, such as Yes Bank, tend to follow market volatility sharply, offering high-risk, high-reward outcomes.

Overall, the study revealed that **return potential is generally accompanied by risk**, and investors must align their portfolio with their individual risk tolerance.

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## 13. Investment Suggestions

Based on the risk-return profile of the selected stocks, the following investment recommendations are made:

- **Risk-averse investors** should consider stable performers like **HDFC Bank**, **Kotak Mahindra**, and **SBI**.
- **Aggressive investors** can explore **Axis Bank**, **ICICI Bank**, or **IndusInd Bank**, which offer moderate to high returns with some volatility.
- **Speculative or short-term traders** may consider **Yes Bank** due to its high beta and market sensitivity, though caution is advised.
- Diversification across high and low beta stocks is recommended to balance overall portfolio risk.

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## 14. Conclusion

This risk and return analysis of selected banking stocks provides meaningful insights into the dynamics of Indian equity markets. It confirms that banking stocks, while being key economic indicators, behave differently under market forces.

By evaluating financial parameters like mean return, standard deviation, beta, and correlation, this study helps investors make **data-backed decisions**. The need to match investments with individual financial goals and risk appetite has never been more critical.

This research serves as a guide to choosing the right banking stock mix in NSE and BSE for sustainable wealth creation.

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## 15. Final Reflections & Investor Takeaways

- **Always assess risk alongside return**. High returns often come with higher uncertainty.
  - **Beta and standard deviation** are essential tools to understand stock behavior in different market conditions.
  - **Diversification is key**. A mix of high- and low-risk banking stocks can stabilize a portfolio.
  - **Stay updated with macroeconomic trends**, as interest rates, inflation, and policy reforms heavily influence banking performance.
  - **Rebalance portfolios periodically** to adapt to market changes and personal financial goals.
- By applying these principles, investors can use stock market data not just for trading—but for building long-term, risk-adjusted wealth.

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## 16. Sectoral Performance & Market Trends

The Indian banking sector's performance is closely linked with macroeconomic variables such as GDP growth, inflation, fiscal policies, and global financial stability. Over the past decade, the sector has witnessed structural reforms, mergers, and technological upgrades.

The 2016 demonetization and subsequent digital push accelerated the adoption of online banking and increased transparency in the sector. Post-COVID-19 recovery saw a surge in credit demand, while interest rate fluctuations driven by RBI policy played a pivotal role in loan and deposit dynamics.

Understanding these trends is crucial, as they influence investor sentiment, stock price movements, and sectoral valuation on exchanges like NSE and BSE.

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## 17. Comparative Analysis: Public vs Private Banks

Public sector banks like SBI tend to be more stable but offer modest returns, influenced by government ownership, social mandates, and regulatory obligations.

In contrast, private banks such as HDFC and Kotak Mahindra exhibit higher operational efficiency, quicker tech adoption, and better risk-adjusted returns. However, they may also be more exposed to market sentiments and foreign institutional flows.

This study found that private sector banks generally outperform public banks in terms of mean returns, although with slightly higher volatility.

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## 18. Implications for Portfolio Management

A well-diversified investment portfolio includes a mix of high-growth, high-risk assets and stable, low-risk assets. Banking stocks—especially those with consistent beta and moderate standard deviation—are valuable in constructing balanced portfolios.

Based on the findings:

- HDFC and Kotak are suitable for core holdings.
- Axis and ICICI can be tactical picks.
- Yes Bank is more speculative and suitable for hedged or high-risk strategies.

Effective portfolio management also requires periodic review and realignment based on evolving market dynamics and personal financial goals.

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## 19. Practical Application for Retail Investors

Retail investors often struggle with selecting the right stocks due to lack of research and time. This paper simplifies the evaluation process using basic statistical tools and historical data.

Key takeaways for retail investors:

- Use beta and standard deviation as key risk indicators.
- Compare stocks not just on price trends but on consistency and return on investment.
- Avoid stocks with extreme year-on-year performance swings unless you have a high-risk appetite.
- Consider banking sector ETFs or mutual funds if direct stock picking seems overwhelming.

Knowledge of tools like CAPM, correlation, and portfolio theory can improve investment outcomes.

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