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"EQUITY ANALYSIS WITH RESPECT TO BANKING INDUSTRY"

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ABSTRACT :

The research paper studies the equity analysis of India's banking industry by evaluating the result of selected banks. The main aim is to help shareholder understand how different banks perform based on financial ratios like Net Profit Margin, Dividend Payout, Earnings Per Share, and Quick ratio and more . it has represent with graph. Using both primary and secondary data, this paper explains how equity analysis can guide investment decisions. It also covers internal and external factors affecting bank stocks, and how macroeconomic elements and market trends influence returns.

Keywords : *Equity Analysis, Banking Sector, Indian Banks, Financial Ratios, , Comparative financial Performance, Balance Sheet*

INTRODUCTION

EQUITY ANALYSIS:-The process of assessing a company's stock, a specific "Stock analysis refers to the study of a specific trading tool, investment field, or the entire market. The goal of stock analysts is to forecast the future performance of a particular stock, industry, or the market as a whole." "Fundamental analysis mainly looks at different kinds of information, such as economic reports, a company's financial condition, its assets, and how much of the market it controls."The goal of technical analysis is to forecast future price movement by analyzing historical market activity.

Equity Analysis on Banking Industry

Equity analysis of banks means checking how well a bank is doing before deciding to buy its shares. Equity analysis is a critical tool for understanding the financial health and performance of companies, especially in capital-intensive industries like banking. Analyzing the current growth of banking scripts in the equity market is the primary goal of this project. Based on the study of Indian economy. n the banking industry, equity analysis helps investors evaluate the strength and profitability of banks before committing to stock investments. The purpose of this report is to evaluate equity market trends that are unique to Indian banking institutions. Historical data has shown that long-term investments in select banking stocks can deliver substantial returns, although these investments inherently carry high risk.

The Indian stock market has provided average returns of around 17% annually since 1990, with an additional 1.5% average dividend yield. When compared to fixed-income instruments like PPFs or FDs, equity shares tend to offer higher returns over time. However, the trade-off is increased risk and volatility, particularly influenced by investor sentiment and market speculation..

Indian Banking History

A strong banking system is very important for a country like India. Banks help in economic growth by managing money and making sure it's used well. They should also be ready to deal with new challenges like changes in technology or the economy.In the last few decades, Indian banks have done a great job expanding their reach. Earlier, banking services were mostly available in big cities. But now, banks are also found in small towns and villages. This wide reach has helped many people and businesses grow. One of the most important events in Indian banking was in *1969*, when the government took over 14 major private banks. This increased public trust in the system and made banking more accessible to the average person. In the past, people had to wait in long lines at the bank for simple services like withdrawing money or getting a draft. Today, banking has become fast and easy—money transfers happen instantly, almost like sending a message!

The journey of banking in India can be split into *three main stages*:

1. *Phase 1 (1786–1969): Early Years of Indian Banking*
2. *Phase 2 (1969–1991): Nationalization Period*
3. *Phase 3 (1991 onwards): Reforms and Modern Banking*

Industry Overview

The Indian banking industry is among the most regulated and systemically important sectors in the economy. Governed primarily by the Reserve Bank of India, it has undergone transformations—from colonial-era structures to nationalization in 1969 and liberalization post-1991.

LITERATURE REVIEW

In the field of equity research, scholars and investors have long explored whether stocks with higher expected returns consistently outperform those with lower expected gains. This has led to extensive studies utilizing time-series models and empirical data to evaluate market behavior. A prominent framework used in these studies is the Security Market Line (SML), which is a important component of The Capital Asset Pricing Model (CAPM). The SML represents is a graphical depiction of the relationship between the risk of a security (measured by beta) and its expected return. It acts as a benchmark to assess whether a stock is priced appropriately for its risk level.

The horizontal axis X-axis indicates beta, representing the systematic or market-related risk.

The vertical axis Y-axis shows the expected rate of return based on that risk.

If a security is plotted above the SML, it recommend that the stock is undervalued—meaning it offers higher returns than expected for its level of risk. On the other hand, if the stock lies below the line, it is considered overvalued, as it offers a lower return relative to its risk exposure.

This analytical tool allows investors to compare different securities and make more strategic investment decisions. It also assists in identifying potential mispricing in the market, which can present profitable opportunities for well-informed investors.

Many studies have also emphasized that understanding this risk-return tradeoff is vital in building an optimal investment portfolio. Investors who align their strategies with these theoretical models are better equipped to balance profitability with risk tolerance.

In conclusion, literature in financial economics strongly supports the use of CAPM and SML as foundational tools in equity valuation. These concepts not only guide stock selection but also help investors set realistic expectations, thereby improving the quality of investment decisions in dynamic market conditions.

Would you like me to apply a similar rephrasing approach to the next section, such as Research Methodology or Industry Profile?

RESEARCH METHODOLOGY

The process is use to collect information and data for the purpose for making business decision. In addition to current and historical, data, methodology may involve publication research, interviews, surveys, and other research methods.

Both primary and secondary sources were used to gather the data.

Primary Data

Conversation with branch manager

Analytical studies of live market

Secondary data

Financial management related books

Online resources and Web sites can be utilized as a crucial source of information

Statistical techniques or tools:

The data gathered for the purpose of analysis are:

- Financial ratio analysis
- Analysis Balance sheet
- Graphical representations of Selected Banks

OBJECTIVES:

The study's primary goals are:

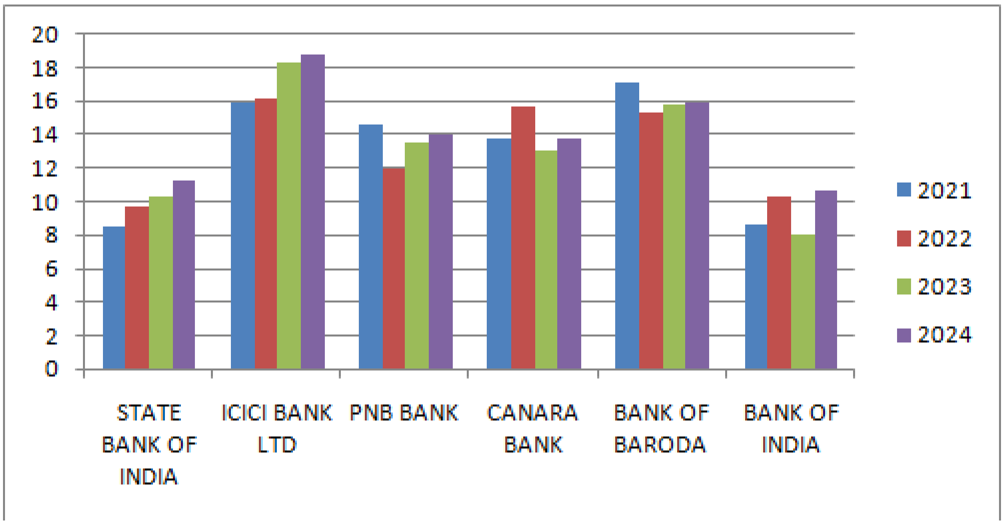
- Assess and contrast the banks' performance in the banking industry.
- To assist investors in their decision to put their money into the banking industry.
- To determine the banking sector's risk-return stock.
- To comprehend the idea and its uses when purchasing equity shares.
- A comparative study of four to five major banks.

ANALYSIS AND INTERPRETATION OF DATA

Table – 1 NET PROFIT MARGIN RATIO

BANKS	2021	2022	2023	2024
STATE BANK OF INDIA	8.55	9.73	10.3	11.2
ICICI BANK LTD	15.91	16.14	18.28	18.75
PNB BANK	14.56	12.09	13.5	14.0
CANARA BANK	13.77	15.65	13.1	13.8
Bank Of Baroda	17.18	15.37	15.8	15.9
BANK OF INDIA	8.59	10.25	8.0	10.7

The net profit ratio of a few chosen banks are displayed in CHART 1.1 and are as follows:



Because businesses in the same industry typically face comparable business conditions, the net profit margin is a useful metric for comparing them. Net profit margins are also a helpful tool for comparing companies in different sectors to ascertain which industries are more profitable. A more profitable business is indicated by a higher profit margin. that, in comparison to its rivals, has better cost control. margin of profit. The operating performance ratio, sometimes referred to as the profit margin ratio, gauges how well a business converts net income from sales.Net sales are divided by net income to calculate it.

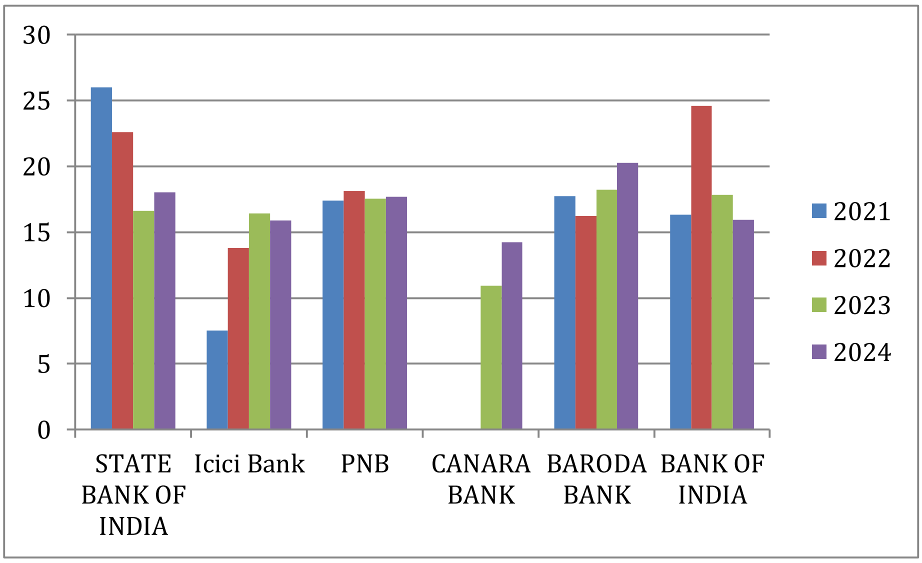
STATE BANK OF INDIA: The table-1 chart show the increasing trend in 2023 and 2024.
ICICI BANK: It is trending upward. In 2023 and 2024, it has
a small rise that signifies a higher net profit margin.
PNB : It varies annually, but it only increase in 2021.
CANARA BANK: It varies annually. but it only went up in 2022.
BANK OF BARODA: It began to rise in 2021 but experienced declines in 2022.
BANK OF INDIA: It varies annually.

TABLE-2 DIVIDEND PAYOUT RATIO

BANKS	**2021**	**2022**	**2023**	**2024**
STATE BANK OF INDIA	**26.03**	**22.59**	**16.60**	**18.02**

ICICI BANK LTD	**7.5**	**13.8**	**16.4**	**15.9**
PUNJAB NATIONAL BANK	**17.38**	**18.15**	**17.55**	**17.69**
CANARA BANK	**0**	**0**	**10.91**	**14.25**
BANK OF BARODA	**17.76**	**16.22**	**18.22**	**20.25**
BANK OF INDIA	**16.34**	**24.61**	**17.85**	**15.96**

Chart



INTERPRETATION:

STATE BANK OF INDIA: The dividend payout ratio decreased from 26.03% in FY 2021 to 16.60% in FY 2023 with slight increase to 18.02% in FY 2024

ICICI BANK LTD: The ratio increased from 7.5% in FY 2021 to 16.4% in FY 2023 then slightly decreased to 15.9% in FY 2024

PUNJAB NATIONAL BANK: The dividend payout ratio remained relatively stable ranging from 17.38% to 18.15 % over the four years.

CANARA BANK: After not paying dividends in FY 2021 anf FY 2022, the bank resumed payouts with a ratio of 10.91% in FY 2023, increasing to 14.25% in FY 2024

BANK OF BARODA: The payout ratio showed consistent upward trend from 17.76% in FY 2021 to 20.25% in FY 2024.

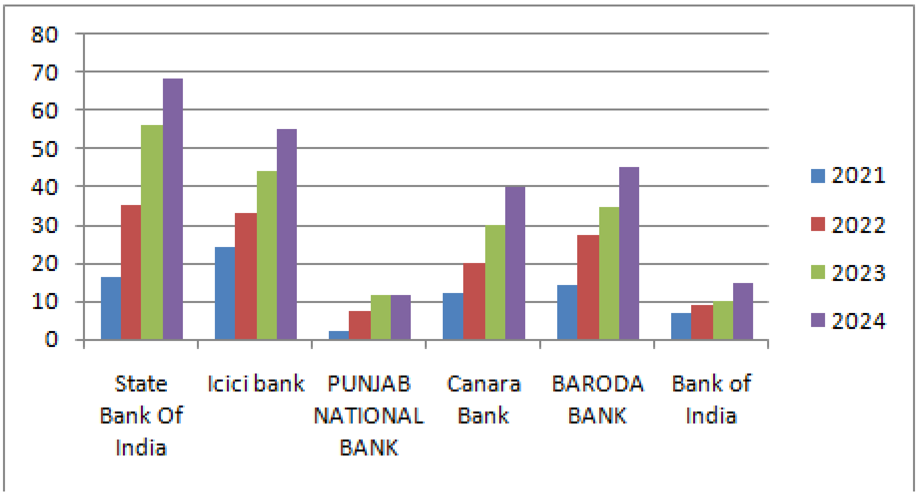
BANK OF INDIA: By FY 2024, the ratio had dropped to 15.96% from its peak of 24.61% in FY 2022.

TABLE-3 EARNING PER SHARE

BANKS	**2021**	**2022**	**2023**	**2024**
STATE BANK OF INDIA	**16.22**	**35.49**	**56.29**	**68.44**
ICICI BANK LTD	**24.15**	**32.96**	**44.12**	**55.20**

PUNJAB NATIONAL BANK	**2.30**	**7.50**	**11.80**	**11.80**
CANNARA BANK	**12**	**20.0**	**30**	**40**
BANK OF BARODA	**14.06**	**27.28**	**35.00**	**45.00**
BANK OF INDIA	**6.59**	**8.84**	**9.80**	**14.90**

Chart



INTERPRETATION:-

State Bank of India (SBI): Demonstrated consistent growth in EPS over the years, reflecting strong financial performance.
ICICI Bank: Showed a steady increase in EPS, indicating robust profitability and efficient operations.
Punjab National Bank (PNB): Experienced significant improvement in EPS from FY2021 to FY2023, with stabilization in FY2024.
Canara Bank: Canara Bank: Displayed a steady increase in EPS, demonstrating efficient growth and management tactics.
Bank of Baroda (BoB): Maintained a positive trajectory in EPS, showcasing resilience and adaptability in a dynamic market.
Bank of India (BoI): Achieved steady growth in EPS, reflecting improved operational efficiency and profitability.

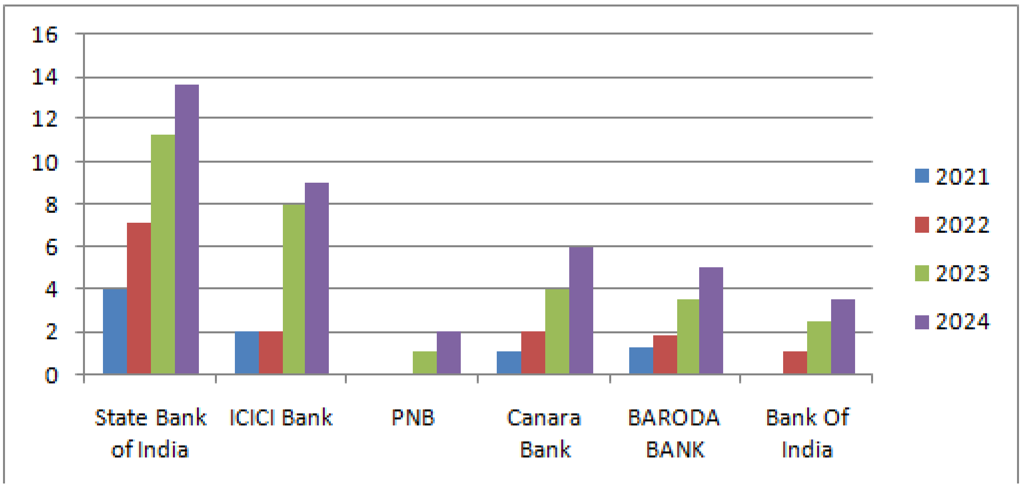
TABLE – 4 DIVIDEND PER SHARE

DISPLAYS SECLECTED PROFITABILITY RATIOS

BANKS	**2021**	**2022**	**2023**	**2024**
STATE BANK OF INDIA	**4.00**	**7.10**	**11.29**	**13.70**
ICICI BANK LTD	**2.00**	**2.00**	**8.00**	**9.00**
PUNJAB NATIONAL Bank	**0**	**0.0**	**1**	**2**
CANARA bank	**1.0**	**2.0**	**4.00**	**6.00**
BARODA BANK	**1.20**	**1.80**	**3.50**	**5.00**

BANK OF INDIA	0.00	1.00	2.50	3.50

CHART

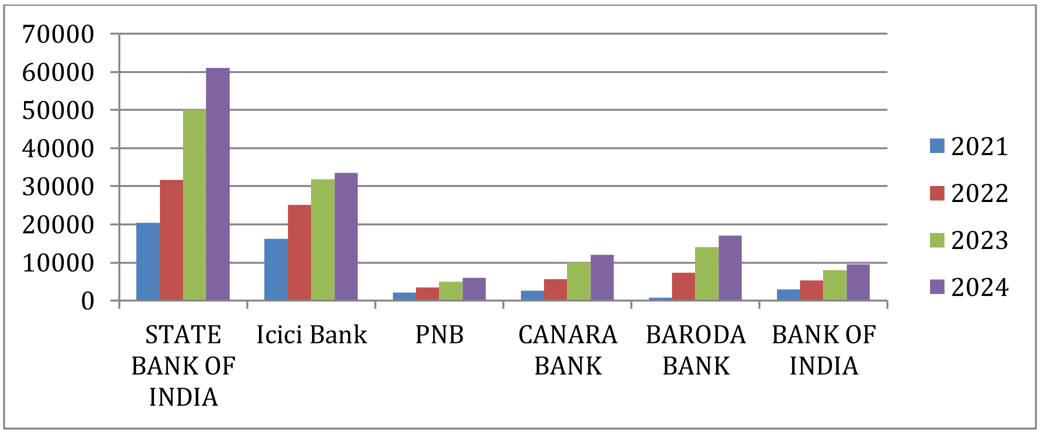


The total amount of dividends declared for each issued common share. The dividend per share, or DPS, It is calculated by dividing the total number of outstanding common shares issued by the total number of dividends paid out during a given year (including interim dividends but excluding special dividends).

TABLE -5 NET INCOME OF LEADING INDIAN BANKS :

BANKS	2021 (Rs Cr)	2022 (Rs Cr)	2023 (Rs Cr)	2024 (Rs Cr)
STATE BANK OF INDIA	20,410	31,676	50,232	61,076
ICICI BANK LTD	16,193	25,110	31,894	33,512
PUNJAB NATIONAL BANK	2,022	3,456	5,000	6,000
CANNARA BANK	2,557	5,678	10,000	12,000
BANK OF BARODA	829	7,272	14,000	17,000
BANK OF INDIA	2,906	5,232	8,000	9,500

CHART



INTERPRETATION:

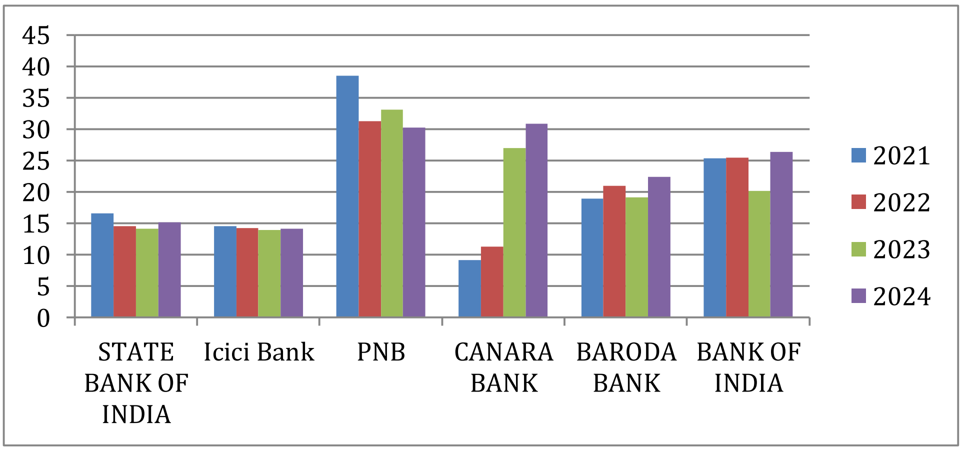
1. SBI's remarkable 3x increase in net income.
2. HDFC Bank's steady profitability. Reaching Rs 49507 Cr in FY 2024
3. ICICI Bank's significant growth.

Notable advancements were also demonstrated by public sector bank likes PNB and BANK OF BARODA.

TABLE-6 QUICK RATIO

BANKS	2021	2022	2023	2024
STATE BANK OF INDIA	16.56	14.49	14.11	15.17
ICICI BANK LTD	14.52	14.26	13.94	14.15
P&N BANK	38.46	31.22	33.09	30.25
CNB	9.17	11.30	26.97	30.86
BARODA BANK	18.9	20.94	19.12	22.37
BANK OF INDIA	25.36	25.47	20.10	26.36

CHART-6 Demonstrates the standing of a few chosen banks:



A measure of the short- term liquidity of a business. If the quick ratio is rising, it means the company's financial health is improving. Company have a enough cash assets. It is easily pay the short term debt. The quick ratio increases as the company's position improves.
With an exception of PUNJAB NATIONAL BANK, which displays a decline in 2024, chart -6 shows an upward or positive trend.

FINDINGS

Data analysis and ratio interpretations of the selected six banks have led to prized conclusions as discussed below-

1. **State Bank of India:** The net profit margin ratio has grown from 10.3 to 11.2 between 2024 by 1.1 times and again increases in 2024 by 1.18 times. In dividend payout ratio it has decrease from 26.03% in FY 2021 to 16.60% in FY 2023 and 18.02% in FY 2024. It has increased in 2024 1.6 times. Earnings per share has increase year 2024 through 12.15 times by which it has decrease in year 2021 52.22 times. dividend per share and Non-performing assets have also increased in every year. Current ratio has increased from 1.06 times in year 2024 quick ratio has also frequently increased.

2. **ICICI BANK LTD:** Gradually, every year, its net profits ratio increases. In 2021, the dividend payout ratio was reduced by 3 times, and slowly, it started decreasing again, now in 2024 it has increased by 1.42 times. Each year, there's an increasing trend in the earnings per share, dividend per share, and quick ratio while showing fluctuations, there are repeated years in current ratio. Yearly variations will also be observed in non-performing assets.

3. **Punjab national bank:** - Net profit margin has steadily increased since 2021, but dropped to 1.66 times in 2022, after slightly rising again in 2024. In dividend payout ratio, the trend fluctuates every year with alternating ups and downs but continues in a more frequent pattern for Earning per share, Dividend per share, Quick ratio Non-performing assets.

4. **CANARA BANK:** - The current ratio was reduced by 0.01 times in 2023 and stays constant in all other three years. Quick ratio, however increased rapidly every year. Net profit margin ratio kept increasing in 2022 followed by an arbitrary increase and fallen down every year after that. Earning per share has increased almost every year, whereas the dividend payout ratio saw no dividend being paid in FY 2021-FY2022 but has now resumed payouts at a rate of 10.91% in FY 2023 which goes up to 14.25% in FY 2025.

5. **BANK OF BARODA:** - Net profit margin ratio has increases in year 2021 but in 2022 it has decreased by 2 times in year 2023-24. Dividend payout ratio has fluctuations in every year. Earnings per share Quick ratio, dividend per share& Non-performing assets has increases fastly in every year. Quick ratio has increases by 3.25 times in year 2024.

6. **Bank Of India**: Net profit Ratio fluctuate Ups and downs in every year and 2024 it has increase 2.7 times. The dividend payout ratio reached a peak of 24.61% in FY2022, fell to 15.96% by FY2024, and then gradually declined in 2024. Earnings per share have slowly increase in every year. Dividend per share increase by 3 times in year 2024 and form year 2022 it started year is decrease. Quick ratio is rises slowly every year and non performing assets are growing in every year. The quick ratio gradually rises annually, while the current ratio fluctuates by 0.01 times. Every year, non-performing assets rise.

CONCLUSION

The expansion of the banking industry can be accurately predicted by the nation's economic growth. The banking sector in India is anticipated to grow in tandem with the country's economy, which is predicted to expand at a rate of 5–6%34.
In October 2023, there has been talk of an apparent failure of the Reserve Bank of India, a competent central regulator that has rules to shield Indian banks from excessive leverage and risky investments. Most public sector banks failed their priority sector target in 2023-2024. Bank-wise data showed that while foreign banks were ahead of domestic banks overall, some of them failed to meet the priority sector lending target too.
Banking performance in the year 2023 and 2024 would have been affected not only by the headwinds that brewed from the domestic economy slowly choking but also from a rising interest rate environment. Recapitalization, prudential regulation, weak banks, and the legal framework surrounding non-performing assets are some of the emerging issues that show up as consolidation and need to be addressed right away."The recent changes in the financial sector have highlighted the limitations of the existing segment-wise regulatory framework, indicating a need for a more integrated and adaptive approach to financial oversight." The approach to financial regulation and supports the adoption of a consolidated supervisory approach, regardless of its structural design.
The Indian banking industry has survived the majority of the crisis thanks to the central bank's comparatively strong protection.

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