A STUDY ON IMPACT OF RISK ON ITS RETURN OF PUBLIC AND PRIVATE SECTOR BANKS

LISTED IN BSE BANKEX

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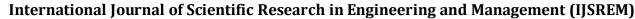OF SCIENCE & TECHNOLOGY, CHENNAI, INDIA

ABSTRACT

A Banking sector is the backbone of the county's economy and this sector has contributed good returns for the investor in the past. Risk and Return analysis play a very important role in an individual decision-making process. This paper analyzes the risk and return of Public and Private sector banks. The study compares the performance of the 10 listed banks in the BSE from January 2016 to December 2020. As from the data collected and calculated HDFC Bank -Private sector bank gives the highest returns of 22.41% and PNB – Public sector bank gives the negative returns of -22.76%. Risk is higher in case of PNB - Public sector bank i.e 5.18% and lower in case of Axis Bank- Private sector bank i.e 0.35%. From Regression Analysis it is found that only ICIC and Axis bank has a significant relationship between Risk and Returns and rest of the banks has no significant relationship between Risk and Return. In Correlation Analysis 7 banks are positively correlated apart from Canara, Punjab national bank and Bank of Baroda are negatively correlated. Risk is a concept that indicates a negative impact on an asset or some characteristic of value that may result from some present process or future event. The study evaluates the performance of banking mainly to identify the required rate of return and risk-based upon different risk elements prevailing in the market and other economic factors.

Keywords: Return, Risk, BSE, Banking sector, Correlation, Regression

I. INTRODUCTION:

Banks play a very important role in building the economy of an individual as well as a nation. The country's economy, has always played a positive key role in prevention the economic disaster from reaching a horrible situation in the country.

When there is higher risk, there is a greater probability of high return and on the other hand when there is the least risk there is a greater probability of low return. The return is the gain or loss of security in a particular

period, return includes interest, dividend, and capital appreciation. The Simple meaning of risk is the probability of loss. It indicates the future niggle about fluctuation from expected earnings or expected outcome. Risk is the chance or probability for certain investments; it may or may not deliver the actual/expected returns.

II. LITERATURE REVIEW:

Suresh , Sai Prakesh (2018) states that the Sector wise portfolio returns are also calculated for the same period, to compare the returns generated by public and private sector banks.Sector wise portfolio returns are also calculated for the same period, to compare the returns generated by public and private sector banks.

Mallikarjunappa. Shaini Naveen (2016) conducted a study on Comparative Analysis of Risk and Return with Reference to Stocks of CNX Bank Nifty. This study analyzes the risk and returns in the banking sector. In this analysis found some stocks move in the opposite direction to the Stock market, some stocks move along with the market, some stocks are less volatile compared to the market and some stocks are more volatile compared to the market.

Muthu Gopalakrisnan, Ramanathan(2013), studied post and prerecession period Indian stock market price fluctuations. The volatility in the market required to estimate the risk on investment. Researcher analyses the selected indexed stock volatility of sectoral in Nifty as on 28-03-2013 daily opening and closing price of 31 selected companies. This analysis helps in identifying volatility relationship during pre and post recession period.

III. RESEARCH METHODOLOGY:

SOURCES OF DATA:

The study is based on secondary data collected from BSE, Yahoo finance, Money control website. Data is collected for 5 years from banking stocks listed in BSE Bankex. Additionally, the data are also collected from websites, journals, books, reports by researchers and scholars.

DURATION OF THE STUDY:

The study covers a period of 5 years (i.e. 1st January 2016 till 31st December 2020 has been considered.

OBJECTIVES OF THE STUDY:

- To indentify Risk and Return of Public and Private banks listed on BSE.

- To identify the correlation between Risk and Return of Public and Private sector Banks.

- To identify the impact of Risk of various bank on its Returns.

- To suggest investors regarding the investments based upon the performance of banking sector.

LIMITATIONS OF THE STUDY:

➢ The area of study is limited to the stocks of 10 banks listed in BSE BANKEX.

➢ The study includes 5 Public and 5 Private sector banks.

➢ The study is confined to a period of five years from 2016 to 2020.

➢ The accuracy is limited as the data collection was strictly confined to secondary sources.

IV. ANALYTICAL TOOLS

4.1 RETURN ANALYSIS

Table.4.1 Returns of the Public and Private Sector Banks

S.No	Name of the Bank	2016	2017	2018	2019	2020
1.	SBI Bank	6.87	7.75	-3.03	0.41	4.59
2.	Canara Bank	-6.93	5.25	-10.93	1.01	-3.34
3.	Indian Bank	5.44	13.70	6.45	1.61	2.50
4.	Punjab National Bank	0.55	4.66	-17.20	-22.76	0.32

5.	Bank Of Baroda	0.73	2.81	-4.59	0.86	0.40
6.	ICICI Bank	10.63	12.34	6.75	3.82	5.30
7.	AXIS Bank	16.80	7.54	5.70	8.34	10.18
8.	HDFC Bank	18.37	22.41	17.90	15.67	13.65
9.	Kotak Mahindra Bank	8.96	16.18	13.02	13.45	10.93
10.	The Federal Bank	6.42	15.80	6.76	9.71	7.29

INFERENCE:

Above table.4.1 shows the Returns on Equity of Public sector Banks, where Indian Bank gets the highest return of 13.70% for the year 2017 and Punjab National Bank gets the lowest returns of -22.76% for the year 2019. Whereas in Private sector banks where HDFC Bank gets the highest return of 22.41% for the year 2017 and ICIC Bank gets the lowest returns of 3.82% for the year 2019.

4.2 RISK ANALYSIS

Table.4.2 Risk rate of Public and Private Sector Banks

S.NO	Name of the Bank	2016	2017	2018	2019	2020
1.	SBI Bank	0.01	0.57	0.23	0.04	1.04
2.	Canara Bank	0.01	0.02	1.14	0.13	0.99
3.	Indian Bank	2.08	1.80	1.01	0.49	0.64

4.	Punjab National Bank	0.12	0.01	5.18	3.03	0.08
5.	Bank Of Baroda	0.06	0.43	0.70	0.10	0.11
6.	ICICI Bank	1.00	1.09	0.71	0.47	0.86
7.	AXIS Bank	2.11	0.35	0.47	0.52	1.41
8.	HDFC Bank	1.53	2.62	0.92	1.06	2.04
9.	Kotak Mahindra Bank	0.64	1.42	1.06	1.33	1.75
10.	The Federal Bank	1.31	1.94	0.60	0.83	1.89

INFERENCE:

Above table.4.2 shows the Risk rates, in Public sector bank, where Punjab National Bank gets the highest Risk rate of 5.18% for the year 2019 and SBI Bank and Canara Bank gets the lowest Risk rate of -22.76% for the year 2016. Whereas in Private sector banks, HDFC Bank gets the highest Risk rate of 2.62% for the year 2017, and Axis Bank gets the lowest Risk rate of 0.35% for the year 2017.

4.3 CORRELATION ANALYSIS

Correlation analysis has been used for studying the relationship between Risk and Return and the results are given in Table 4.3

H0: There is no significant relationship between Risk & Return

H1: There is significant relationship between Risk & Return

Table.4.3 Correlation between Risk and Return

S.No	Name of the Bank	Correlation	P Value	Significant
1.	SBI Bank	0.294	.631*	Not Significant*

2.	Canara Bank	-0.615	.270*	Not Significant*
3.	Indian Bank	0.476	.209*	Not Significant*
4.	Punjab National Bank	-0.617	.05*	Not Significant*
5.	Bank Of Baroda	-0.874	.267*	Not Significant*
6.	ICICI Bank	0.889	.043*	Significant*
7.	AXIS Bank	0.939	.018*	Significant*
8.	HDFC Bank	0.427	.473*	Not Significant*
9.	Kotak Mahindra bank	0.436	0.463*	Not Significant*
10.	Federal Bank	0.476	.463*	Not Significant*

*Significance at 0.05 level

INFERENCE:

The above table 4.3 shows that how the banks are been correlated. Among all, AXIS bank is positively and highly correlated with the coefficient value of 0.939. Compared to all Canara(-.615), PNB(-0.617),Bank of Baroda(-0.617) are negatively correlated. It is noted that the P value is less than 0.05 for ICICI and Axis bank, hence this both banks have a significant relationship between Risk and return. Other banks doesn't have a significant relationship between risk and return as their P value is greater than 0.05.

4.4 REGRESSION ANALYSIS

Regression analysis has been used for studying the impact of Risk and Return and the results are given in Table 4.4

H0: There is no significant impact of Risk on its Return

H1: There is significant Impact of Risk on its Return

Table 4.4 Regression analysis between Risk and Return of Public and Private Sector Banks

S.NO	Name of the Bank	R Square (%)	P value	Significance
1.	SBI Bank	0.81	0.631	Not Significant
2.	Canara Bank	37.8	0.270	Not Significant

3.	Indian Bank	45.8	0.209	Not Significant
4.	Punjab National Bank	76.3	0.53	Not Significant
5.	Bank Of Baroda	38.1	0.267	Not Significant
6.	ICICI Bank	79.1	0.043	Significant
7.	AXIS Bank	88.1	0.018	Significant
8.	HDFC Bank	18.2	0.473	Not Significant
9.	Kotak Mahindra Bank	19	0.463	Not Significant
10.	The Federal Bank	22.7	0.418	Not Significant

*Significance at 0.05 level

INFERENCE:

From the above table, only ICIC Bank And Axis Bank has a significant impact between Risk and Returns, hence Accept H0. Other banks no significant impact between Risk and returns, hence Reject H0.

V.CONCLUSION

The risk and return are the two sides of a same coin called investment. The study is based on the analysis of stocks listed on BSE BANKEX. This gives an idea to the investors to determine whether he is required to purchase the stocks on the basis of performance of the stock for a given period. A stock with higher standard deviation value is not preferred as it is exposed to higher market risk which cannot be diversified like unsystematic risk, hence such stocks are better to avoid for constructing a portfolio. This study is an attempt to evaluate the returns of banking stocks listed on BSE Bankex and to identify the best stocks to invest and the worst stocks to be ignored. If the investors are ready to take in higher risk for extra return, then the investors are suggested to invest in Public sector banks bank and where the risk is lower, the investors can invest in Private sector banks, that are giving higher returns. The investors who are looking for low risk with moderate return are suggested to invest in AXIS bank. However by constructing a portfolio the investors can minimise the risk of getting lower return. While taking decision, the investor can also consider the fundamental and technical analysis.

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