



RISK RETURN ANALYSIS OF SELECTED BANKS LISTED IN BOMBAY STOCK EXCHANGE – A COMPARATIVE STUDY

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ABSTRACT

Stock Exchanges plays an important role in Indian economy. Bombay Stock Exchange (BSE) is a First and the fastest Stock Exchange of Asia and also one the leading exchange group in India. It was established in 1875 as flag of “The Negative Share and Stock Brokers’ Association”. BSE is the platform for trading financial assets like equities, debentures, mutual funds and etc. It continuously evaluates the securities and provides their transportability. The main aim of this paper is to study the volatility in share price of securities in India. The present study was undertaken with an objective of identifying the Risk – Return analysis of selected banks and also to compare public sector banks and private sector bank listed in BSE. Risk is the potential variability of returns. Return may be defined as yield plus capital appreciation.

KEY WORDS: *BSE, securities, risk, return, public sector banks, private sector banks etc.*

INTRODUCTION

A stock exchange has an important role to fulfil in the economic development of a country. It is essential for the smooth functioning of the private sector corporate economy. Stock market is an organisation that provides a facility for buyers and sellers of listed securities to come together to make trades in these securities. The market mechanism for the buying and selling of new issues of securities is known as primary market. The buying and selling of securities already issued and outstanding take place in stock exchange.

Hence, stock exchanges constitute the secondary market in securities. Securities and Exchange Board of India (SEBI) is a regulatory body exercising regulatory control and supervision over the functioning of the securities exchange system in the country. The securities market in India is properly regulated to ensure that it functions efficiently and effectively. Bombay Stock Exchange (BSE) is the oldest stock exchange in Asia. Some of the oldest stock exchanges in India are:

- 1 Ahmedabad Stock Exchange (1894)
- 2 Kolkata Stockbrokers at Kolkata (1908)
- 3 Madras Stock Exchange (1937)
- 4 Madhya Pradesh Stock Exchange at Indore (1919)
- 5 Hyderabad Stock Exchange (1943)
- 6 Delhi Stock Exchange (1947)

PUBLIC SECTORS BANKS Vs PRIVATE SECTORS BANKS

Public sector bank means more than fifty percentage of the stake is held by the Government. In a private sector majority of the stake owned to private shareholders, including corporations and individuals. Loan interest rates are low in public sector banks compared to private sector banks. Private sector banks providing better service with more charges compared to public sector banks. Minimum balance and charges are also low in public sector banks. Public sector bank customers are mostly government employees for their salaries, fixed deposits, lockers etc. Whereas private sector bank in India targeted company employees, for their salary accounts, credit cards and net banking. Financial performance of public sector banks lag behind when comparing most of the parameters like non performing assets or NPA and net interest margins, private sector banks tend to be much better placed.

REVIEW OF LITERATURE

A study was undertaken by Shaini Naveen and T.Mallikarjunaappa (2016) on ‘*A study on comparative analysis of risk an return with reference to stocks of CNX Bank Nifty*’ to find risk and return of banks, performance of banks with their benchmark and to study volatility of banks. The present study reveals that investors should analyze the market on a continuous basis which will help to select the right companies to invest funds.

An attempt was made to study risk return of public and private banks and compare the performance of each bank against their bench mark by Suresh A.S and Sai Prakash L (2018) in the study entitled '*Study on comparision of risk return analysis of public and private sector banks listed on bank nifty*'. The study found that public sector banks are more volatile when compared to private sector banks and suggested to invest in private sector banks where the returns are higher.

NEED OF THE STUDY

The need of the study was to evaluate the activities of banking securities with the BSE BANKEX. It also analyse the risk and return of the selected banking securities with the market index for a particular period of time.

SCOPE OF THE STUDY

The scope of the study is confined to 10 banks (5 public sector and 5 private sector banks) listed under BSE. This study covers the average return, standard deviation & beta of the selected banking securities for a period of 5 years i.e, from April 2014 to March 2019.

OBJECTIVES OF THE STUDY

- 1 To study the risk and return of select public and private sector banks listed in BSE
- 2 To compare the risk and return of public and private sector banks listed in BSE
- 3 To compare the performance of securities against their BSE BANKEX index

RESEARCH METHODOLOGY

Data sources

The present study was conducted based on secondary data. Data was collected from the BSE website, Journals and magazines etc.

Sample

Data was collected from top five Public sectors banks listed in BSE namely Bank of Baroda (BoB), Central Bank of India (CBI), Canara Bank(CB), Bank of India (BoI) and State Bank of India (SBI). In the same manner date was collected from five private sector Banks namely Housing Development Finance Corporation (HDFC), Industrial Credit and Investment Corporation of India (ICICI), AXIS bank, YES bank and Federal Bank to compare risk and return analysis between public sector and private sector banks.

TOOLS USED IN THE STUDY

Statistical tools:

- 1.**MEAN:** It is used to calculate the average returns of stocks by using the formula.

Return = (Closing price – Opening price)/ Opening price * 100

Mean = $\sum R/N$, Where dR is sum of returns of the Stock

N is number of years

- 2.**STANDARD DEVIATION (SD):** It is provides the measure of the total risk associated with a security. If standard deviation is more, then the risk is also more in the security.

Standard deviation (\dagger) = $\sqrt{\text{Variance}}$

Variance(\dagger^2) = $d(R_i - R_m)^2 / n-1$

3. **BETA:** Beta is a measure of the volatility in security returns due to changes in economy or the market. Beta is also known as the beta coefficient. Beta is an index of the systematic risk of a security. The larger the beta, the more volatile the security and vice versa.

Beta() = $\text{Cov}_{im} / \dagger_m^2$

Beta <1 – indicates the stock is less volatile than the market as a whole

Beta >1 – indicate the stock is more volatile than the market as a whole

Beta <0 – indicates stock is losing money while the market as a whole is gaining

LIMITATIONS OF THE STUDY

- The study is confined mostly on secondary data.
- The study is confined to 5 years only.
- Suggestions and conclusions are based on the limited data of five years.
- The study is limited to only 3 companies in IT sector.

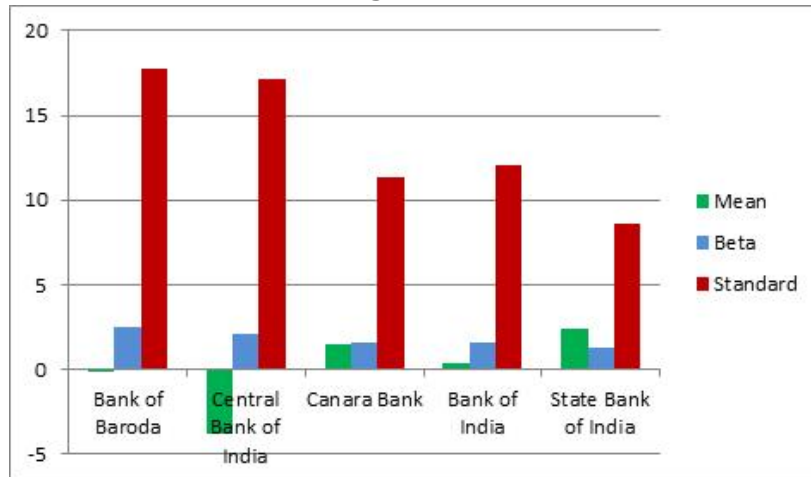
DATA ANALYSIS AND INTERPRETATION

An attempt was made to study the risk and return of select public sector banks and private sector banks. Statistical techniques like mean, Standard deviation and Beta was calculated to analyse the risk return comparison between the banks.

Table 1: Table showing Return and Risk of Public Sector Banks

Name of the Bank	Mean	Beta	Standard
Bank of Baroda	-0.0379	2.48267	17.73287
Central Bank of India	-3.76811	2.11614	17.15934
Canara Bank	1.456492	1.609554	11.36318
Bank of India	0.397353	1.596665	12.07017
State Bank of India	2.427917	1.33046	8.589751

Figure 1:



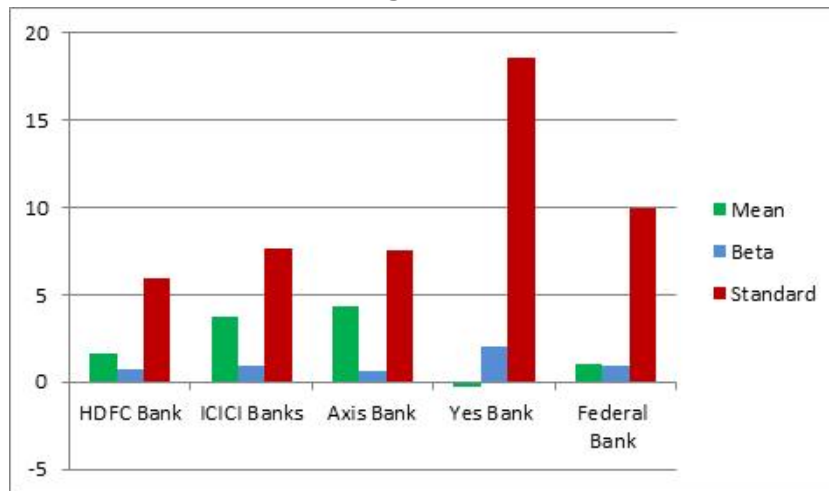
From the above table and graph it is interpreted that Beta value is higher in the case of Bank of Baroda ie., 2.48 with a mean value of -0.038 and standard deviation is 17.73

which indicates higher risk. Whereas SBI is having lowest Beta value i.e., 1.13 with a mean of 2.43 and standard deviation of 8.59 which is comparatively less risky.

Table 2: Table showing Return and Risk of Private Sector Banks

Name of the Bank	Mean	Beta	Standard
HDFC Bank	1.608872	0.702859	5.928178
ICICI Banks	3.779033	0.93223	7.654335
Axis Bank	4.320653	0.652351	7.509778
Yes Bank	-0.2591	2.052584	18.54864
Federal Bank	1.056224	0.905541	9.927971

Figure 2:



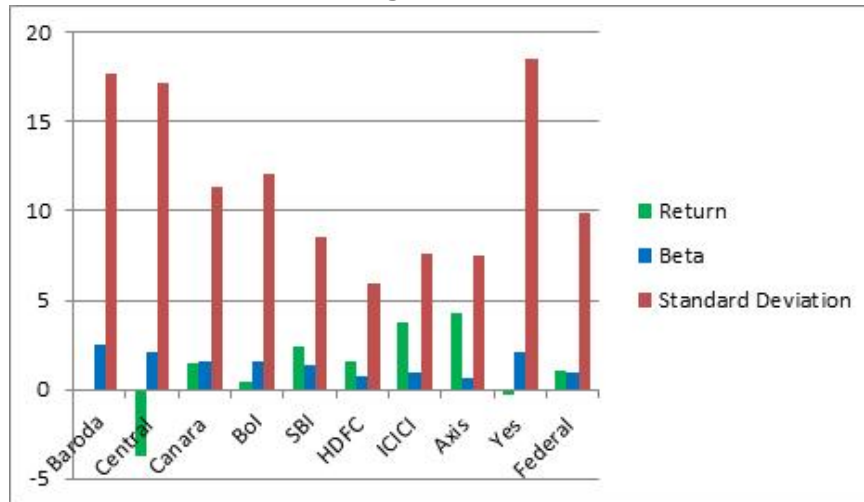
From the above table and graph it is interpreted that Beta value is higher in the case of YES Bank ie., 2.05 with a mean value of -0.26 and standard deviation is 18.55 which

indicates higher risk. Whereas AXIS Bank is having lowest Beta value i.e., 0.65 with a mean of 4.32 and standard deviation of 7.51 which is comparatively less risky.

Table 3: Table showing Return and Risk of Private Sector Banks

Name of the Bank	Mean	Beta	Standard
Bank of Baroda	-0.0379	2.48267	17.73287
Central Bank of India	-3.76811	2.11614	17.15934
Canara Bank	1.456492	1.609554	11.36318
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Federal Bank	1.056224	0.905541	9.927971

Figure 3:



From the above table and graph it is evident that the high the beta value is Bank of Baroda with 2.48 and the lower the beta value is AXIS Bank with 0.65 which shows the volatility of the selected securities

CONCLUSION

The study is based on the analysis of securities listed on BSE BANKEX. The present study gives an idea on the performance of public sector banks and private sector banks. The study reveals volatility of the selected securities based on market benchmark. It can be concluded that public sector banks are highly volatile when compared with the private sector banks

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