

## RISK AND RETURN ANALYSIS OF EQUITY SHARES IN BANKING SECTOR

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### ABSTRACT

Individual investor decision making on the basis of returns and risk oriented with that investment. Historical Data proves that expected returns are always varying from actual returns and investment returns are higher when more risk bearing with investment. In order to understand the nature of equity shares of banking sector and relationship between returns and risk of investment in banking sector can be evaluated with help of Risk and Returns equity analysis by statistical tools Correlation, Standard Deviation, Beta and mean, Variance.

### INTRODUCTION

#### RISK

Meaning of Risk can be expressed in multiple ways, in general terms Risk is a “Put Yourself in Danger Position”. In Terms of Finance it is “loosing of investment when unforeseeable events occurred” thus risk involves with investment is much similar to concept of **tautology** “an event is true but uninformative”.

#### RETURN

Return is additional amount receive excluding investment at the end of the agreed period(Duration).with help of returns investor can able to calculate profit or loss arises out of that investment.

#### NEED FOR STUDY

Prior to every investment, every investor considers the factors of price and returns and risk associated with shares of multiple organizations which listed in stock.

Prices of Shares of different organizations are fluctuating due to market changes in terms of buying and selling of shares and other factors thereto. Changes in the market determine whether investor benefit or not. With presence of uncertainty in the market, data provided by risk and return analysis can assist the investor to

bridge the vacuum between market and his investment therefore every investor can reduce the risk by larger extent.

#### SCOPE OF THE STUDY

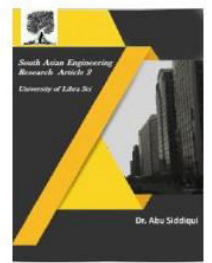
- The historical data is purely helpful for this study.
- Limited time period.
- The investigation of this project is limited with banks (private and nationalised banks) which are traded and listed in stock exchanges.
- In this study of risk and return 5 banks are allowed.

#### OBJECTIVES

1. To study and compare the shares of banking industry with respect to risk and returns.
2. To rate the company’s position in the market for investments in terms of returns and risk.
3. After assessing the market and company performances in providing returns while associating little risk nominate few banks for guiding investors for best returns.



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## REVIEW OF LITERATURE

1. P.Naveen (march-2013) Investor should consider every alternative investment plan to gain higher returns while bearing negligible value of risk. Few banks provide higher rate of returns with higher rate of risk involves with investment hence investor needs to find optimum combination of investment strategy.
2. Dr.S.Nirmala & K. Devendran (2012)
3. If an investor desires or aims for higher profits is possible with equivalent of risk bears. Investor who invests for long term has a advantage in the market as his investment protected from market sensitivity.
4. Shaini naveen& T.Mallikarjunappa(2011):
5. Risk and returns of Investment are wholly and solely determined by investor as security market is dynamic and prices of shares fluctuate and estimated returns and risk may changes hence the investor has to aware of market conditions and explore his investment options to mitigate risk and maximize returns.

## RESEARCH METHODOLOGY

### PRIMARY DATA:

Data or information relevant to research generated or produced by organizations called primary data.

### SECONDARY DATA:

When data or information collected from publishers such as journals and news papers and BSE and NSE platforms called as secondary data.

### SAMPLE SIZE:

Five Banks are chosen to calculate risk and return analysis

- CENTRAL BANK OF INDIA
- ICICI BANK
- HDFC BANK
- SYNDICATE BANK
- STATE BANK OF INDIA

### STATISTICAL TOOLS:

For the evaluation of risk and return of equity shares in banking sector these techniques are used.

- MEAN
- STANDARD DEVIATION
- VARIANCE
- BETA
- CORRELATION

### FORMULA OF MEAN:

$$\text{MEAN} = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

Where,

$X_1, X_2, X_3, \dots, X_n$  = values of observations

### FORMULA OF VARIANCE:

$$\text{VARIANCE} = \frac{\sum (x - X)^2}{N}$$

### FORMULA OF STANDARD DEVIATION:

$$\text{STANDARD DEVIATION} = \sqrt{v_1}$$

### HYPOTHESIS STUDY

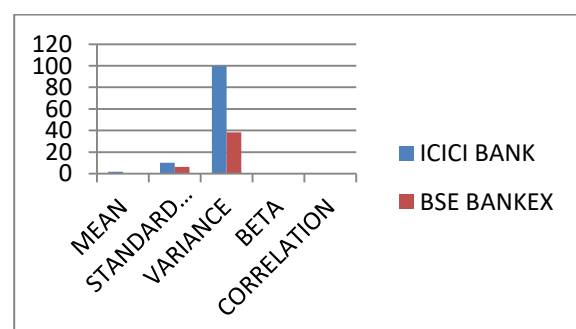
**H<sub>0</sub>** = it doesn't exist relationship between market returns and banking sector returns.

**H<sub>1</sub>** = It exist a relationship between market returns and banking sector returns.

### Data Interpretation:

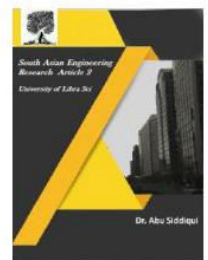
### RISK AND RETURN ANALYSIS OF ICICI BANK

PARTICULARS	ICICI BANK	BSE BANKEK
MEAN	1.6943627	0.57057295
STANDARD DEVIATION	9.9816827	6.18108251
VARIANCE	99.63399	38.205781
BETA	0.4719787	-
CORRELATION	0.7621871	-





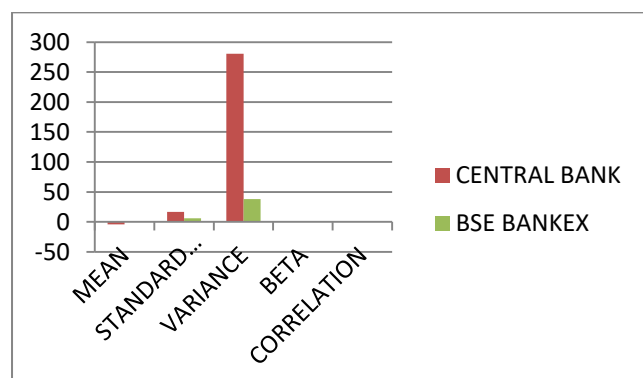
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**Interpretation:** The ICICI bank has higher returns when compared with the market returns. The ICICI bank has 1.69 and BSE bankex has 0.57. The ICICI bank has the higher risk with 9.98 when compared to the market returns. The ICICI bank has the higher systematic risk with 0.47. When the ICICI bank comes to the correlation is not related to the BSE Bankex with 0.76.

### RISK AND RETURN ANALYSIS OF CBI BANK

PARTICULARS	CENTRAL BANK	BSE BANKEK
MEAN	3.945015007	0.570572949
STANDARD DEVIATION	16.75044764	6.181082513
VARIANCE	280.5774961	38.20578103
BETA	0.164394199	-
CORRELATIO N	0.445500673	-

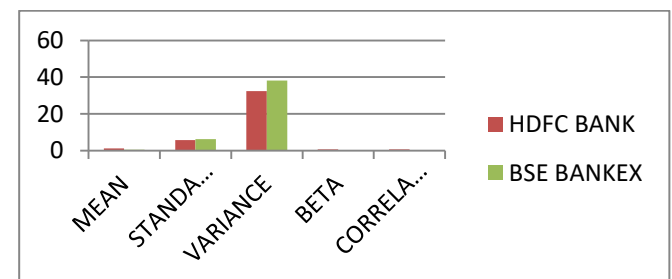


**Interpretation:** The CBI bank has high returns when compared with the market returns. The CBI bank has 3.94 and BSE Bankex has 0.57. The CBI bank has the higher risk with 16.75 when compared to the market returns. The CBI bank has the higher systematic risk with 0.16. When the

CBI bank comes to the correlation is not related to the BSE Bankex with 0.44.

### RISK AND RETURN ANALYSIS OF HDFC BANK

PARTICULARS	HDFC BANK	BSE BANKEK
MEAN	1.218055383	0.570572949
STANDARD DEVIATION	5.693259295	6.181082513
VARIANCE	32.41320139	38.20578103
BETA	0.696491422	-
CORRELATION	0.641522946	-



**Interpretation:** The HDFC bank has higher returns with when compared with the market returns. The HDFC bank has 1.21 and BSE Bankex has 0.57. The HDFC bank has the fewer risk with 5.69 when compared to the market returns. The SBI bank has the higher systematic risk with 0.69. When the HDFC bank comes to the correlation is not related to the BSE Bankex with 0.64.

### RISK AND RETURN ANALYSIS OF SYNDICATE BANK

PARTICULARS	SYNDICATE BANK	BSE BANKEK
MEAN	-5.366431397	0.570572949
STANDARD DEVIATION	12.195729483	6.181082513
VARIANCE	148.7358176	38.20578103

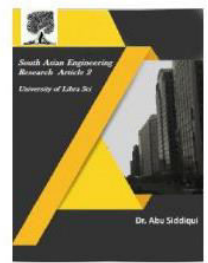


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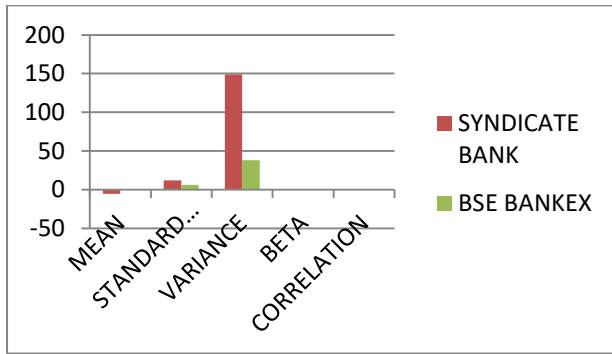
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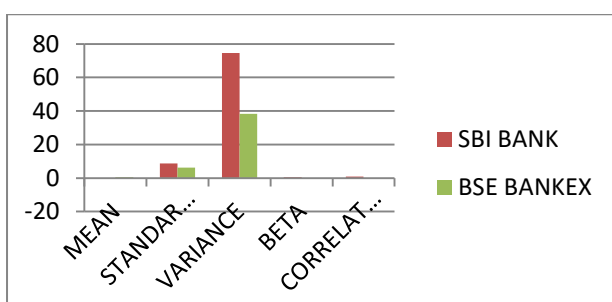
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<b>BETA</b>	0.30416861	-
<b>CORRELATIO N</b>	0.600146993	-



**Interpretation:** SYNDICATE bank has fewer returns when compared with the market returns. The SYNDICATE bank has -5.36 and BSE Bankex has 0.57. The SYNDICATE bank has the higher risk with 12.19 when compared to the market returns. The SYNDICATE bank has the higher systematic risk with 0.30 when comes to the correlation the SYNDICATE bank is not related to the BSE Bankex with 0.60.

## RISK AND RETURN ANALYSIS OF SBI BANK

PARTICULARS	SBI BANK	BSE BANKEX
<b>MEAN</b>	-	0.570572949
<b>STANDARD DEVIATION</b>	8.639113958	6.181082513
<b>VARIANCE</b>	74.63428998	38.20578103
<b>BETA</b>	0.592051289	-
<b>CORRELATION</b>	0.82749236	-



**Interpretation:** The SBI bank has fewer returns when compared with the market returns. The SBI bank has -0.42 and BSE Bankex has 0.57. The SBI bank has the higher risk with 8.63 when compared to the market returns. The SBI bank has the higher systematic risk with 0.59. When the SBI bank comes to the correlation is not related to the BSE Bankex with 0.82.

## HYPOTHESIS TEST

- There exist a relationship between market returns and banking returns.
- So, H1 is accepted.

## FINDINGS

1. The ICICI bank has 1.69 and BSE bankex has 0.57. The ICICI bank has the higher risk with 9.98 when compared to the market returns.
2. The CBI bank has 3.94 and BSE Bankex has 0.57. The CBI bank has the higher risk with 16.75 when compared to the market returns.
3. The HDFC bank has higher returns with when compared with the market returns. The HDFC bank has 1.21 and BSE Bankex has 0.57. The HDFC bank has the fewer risk with 5.69 when compared to the market returns. The SBI bank has the higher systematic risk with 0.69.
4. The SYNDICATE bank has -5.36 and BSE Bankex has 0.57. The SYNDICATE bank has the higher risk with 12.19 when compared to the market returns.
5. . The SBI bank has -0.42 and BSE Bankex has 0.57. The SBI bank has the higher risk with 8.63 when compared to the market returns. The SBI bank has the higher systematic risk with 0.59.

## CONCLUSION

Some of the banks have higher returns and some have high risk. Whatever the result may be the investor want a combination of both higher returns

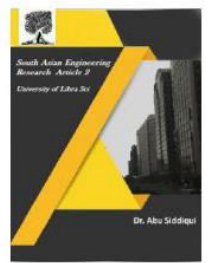


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and low risk. Here the Beta is used to know where the systematic risk is high. On the basis of this the investor can come to the conclusion that he should analyze the market continuously to pick right company for investment.

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