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The Performance of Indian Banking Share Market

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Abstract

The performance of the Indian banking share market reflects the sector's critical role in the country's economic growth and its response to macroeconomic and policy shifts. Over the years, banking stocks have emerged as key drivers of the equity market, influenced by economic cycles, reforms, and market sentiment. Indian banking stocks have shown strong performance due to increasing credit demand, digital transformation, and financial inclusion initiatives. Private sector banks, such as HDFC Bank and ICICI Bank, have consistently outperformed due to better asset quality, customer-centric strategies, and technology adoption. Public sector banks (PSBs), after struggling with high non-performing assets (NPAs), have seen improvements due to recapitalization and bad loan resolutions. The COVID-19 pandemic initially led to a decline in banking stocks due to fears of loan defaults and economic slowdown. However, post-pandemic recovery, supported by fiscal stimulus and accommodative policies from the Reserve Bank of India (RBI), revitalized the sector. The Russia-Ukraine conflict, inflationary pressures, and global monetary tightening caused temporary volatility but did not derail the sector's long-term growth trajectory. Despite challenges such as rising interest rates and geopolitical uncertainties, Indian banks have displayed resilience. The sector’s strong fundamentals, improved balance sheets, and focus on innovation continue to attract domestic and foreign investors. In summary, the Indian banking share market has delivered robust performance, driven by a blend of strong economic fundamentals, sectoral reforms, and increasing investor confidence.

Keywords: Indian banks, share price, COVID-19, RBI, Equity.

INTRODUCTION

The economic growth of a country is directly proportional to the growth of its banking sector as the bank transfers savings into investments, which generates income for the bank. The banking sector should be robust to reflect the proactive regulatory changes, it must adopt new technology. Change is constant in the world and is the root cause for the growth in any sector. The growing competition among the banks and increasing demand from the customer-led them to adopt changes in their services. This helped the banks to achieve financial growth. Banks in India are growing fast after nationalization. Reform in the banking sector helped both public sector as well as the private sector banks to increase their profit. The prime objective of reform is to prepare the system to a greater extent by aligning financial policies. In India, the apex bank Reserve bank of India does this by implementing monetary policies like Repo rate, reverse repo rate, capital adequacy ratio (CAR) and so. Also, it keeps an eye on non-performing assets (NPA). The continuous growth in the banking sector and its good financial statement gave them global prominence. This attracted substantial investment in bank stocks.

Overview of the stock market and Indian banking sector

Rapid industrialization in all the sectors has opened the minds of all individuals to do investment, warranting the investors to be continuously cautious of risk and return involved in it. India has opened doors for multinational companies to meet the growing economic requirements. Thus, the competition has increased in the Indian banking sector also. The social profitability of the banks, the growth rate, and the risk exposure have a direct impact on its market potential. Indian banking sector stocks are more attractive so they have emerged as one of the leading segments in the stock market in India.

Initially, bank stocks found a place in the BSE-100, BSE-500, and BSE-Sensex indices. The Sensex is the first and the most popular benchmark index formed in 1986, comprising the stocks of thirty blue-chip companies of all sectors.

NSE was established in 1992, located in Mumbai, Maharashtra. To bring transparency the Government of India recommended the Pherwani committee to establish NSE. It was the first exchange in the country to replace paper-based trading with a modern electronic trading system that offered easy trading facilities to investors across the country.

There are three banks in the NSE–Sensex, namely SBI, ICICI Bank, and HDFC Bank which are proxies for the banking sector stocks. Nifty Bank index is largely capitalized and fairly liquidated by the twelve banks, which represents ninety percent of the total market capitalization of the index, below is the list of twelve banks as released by NSE India on basis of closing prices of December 2021.

1. HDFC Bank
2. ICICI Bank
3. Kotak Mahindra Bank
4. Axis Bank
5. State Bank of India (SBI)
6. IndusInd Bank
7. AU Small Finance Bank Ltd.
8. Bandhan Bank
9. Federal Bank
10. IDFC First Bank Ltd
11. Punjab National Bank (PNB)
12. RBL Bank

The stock market performance of bank stocks shows the spirit of their fundamentals and their impact on the global economy. In 2008-09, the global crisis affected the economic condition of the world, and this caused fluctuations in the stock market indices across the world. During the period, Indian banks like ICICI, SBI, and HDFC were adversely affected. The poor performance of the three banks' stock caused the fall of Sensex. The strong financial performance, low non-performing assets (NPA) in the period of post-global crisis, and systematic intervention by the RBI and its regulation of monetary policy helped the banks to regain their position after March 2009. Among the economies, India was the first to recover from the impact of the financial and economic crisis.

The COVID-19 impact on banking was a severe fall in demand, lower incomes, and production shutdowns and adversely affected the business of banks. After the outbreak of the COVID-19, the stock market came under fear as BSE Sensex and NSE Nifty fell by 38%. It leads to a 27.31% loss of the total stock market from the beginning of this year. It can be noted that after a massive correction, also after the WHO announced COVID-19 as a pandemic, markets have recovered swiftly and were near their all-time highs in January 2020. It was observed that recovery has been broad-based. It was not just large caps but the mid and small-cap shares have also recovered (Tyagi Ajay, 2021).

TERMINOLOGIES

a. **Bank-** A bank is a financial institution licensed to receive deposits and make loans.
b. **A stock** (also known as equity) is a security that represents the ownership of a fraction of a corporation. The stock market is a place where shares of public listed companies are traded
c. **Equity**: Equity represents the stake of investors in the company entity. Equity is determined by deducting total liabilities from total assets.

There are two types of equity analyses.

1. **Fundamental Analysis**
2. **Technical Analysis**

Fundamental Analysis:- Fundamental Analysis is the analysis of different forces that affect the health of the economy in the industry groups and companies. It is used by positional traders.

Technical Analysis pertains to the examination of market-generated data, such as prices and volume, to ascertain the prospective trajectory of price changes.

Technical analysis aids in forecasting the trajectory of stock values. Utilized for short-term investments by intraday traders.

PROBLEM STATEMENT

Equity research involves examining price fluctuations and market patterns to predict future pricing. The investors have challenges in recognizing opportunities. This research focuses on several stock analysis methods that assist investors in determining optimal purchase or sell decisions. In the present economic climate, interest rates are declining, and volatility in the stock markets has created uncertainty among investors. Making investing decisions proves challenging. This is mostly due to the inherent risks of investments, necessitating that investors evaluate multiple aspects before to committing capital. Consequently, the investigation is predicated on the subsequent issue.

1. Changes in the price of the various banking stocks with customers' emotional, macro-economic factors and international news factors.
2. Equities represent high-risk investments. It is essential to thoroughly examine market risk and factors such as government policies and RBI monetary policies that influence share prices.
3. Every investor wants to gain maximum return with minimum risk. At the same time, they prefer their investment to be liquid. Bank stocks are not an exception to it. Hence, this study has been undertaken to analyse the stock market performance of bank stocks and fluctuation in its price with factors impacting it.
4. It has been determined that investments in certain banks shares with a longer investment horizon have produced significantly higher returns than other investments. Nonetheless, this does not imply that all stock investments will ensure comparably large returns. Therefore, it is essential to analyse the fluctuations (upward or downward) of the stock prices of certain banking stocks using technical analysis. This would assist traders in identifying entry and exit points.

REVIEW OF LITERATURE

In a fast and dynamic world, financial institutions serve the nation by equalizing demand and supply of money. Investment in the banking sector's savings schemes is often viewed as safe, assuring fixed returns. Considering the importance of banks for economic development, many studies have been conducted by researchers and analysts hitherto. In this context, some of the research works related to bank stocks in the stock markets and other relevant studies have been taken for review.

Raja Ram (2020) His analysis has indicated that COVID-19 disrupts the entire global stock market. The Indian stock market saw significant volatility due to the collapse of the global financial sector. Again fall in FPIs also reduces the return of the Indian stock market. The author categorizes COVID-19 as a "black swan" event by examining the history of unforeseen occurrences. He has conducted a more in-depth analysis of the historical crash and recovery of the Indian stock market and found that economist 7 cannot forecast economic recovery unless a solid public health system is established.

Ravi (2020) has contrasted the Indian stock market's conditions before and during the COVID-19 pandemic. His findings indicated that prior to COVID-19, specifically at the onset of January, the trading volumes of the NSE and BSE reached their zeniths, with maxima of 12,362 and 42,273 respectively, hence reflecting positive stock market conditions. Following the COVID-19 outbreak, the stock market experienced significant turmoil, with the BSE Sensex and NSE Nifty declining by 38 percent. This results in a 27.31 percent decline in the whole stock market since the start of this year. The stock of several sectors, including hospitality, tourism, and entertainment, has declined by almost 40% due to transportation limitations.

Shezad et al. (2020) conducted a study to analyse the nonlinear behaviour of the financial market of the US, Italy, Japan, and China market return by applying the Asymmetric Power GARCH model. The study confirmed that COVID-19 harms the stock returns of the S&P 500. However, it revealed an inconsequential impact on the Nasdaq Composite index.

Pradhan and Dahal (2018) examined the factors which affect the share price of Nepalese commercial banks. The multiple regression models were used to test the impact of company-specific and macroeconomic variables on the share price of banks. The data of 14 banks were selected. The variable firm size and GDP were found to be the most important factor which affected the share prices which means the larger the firm size, the higher would be the EPS.

Aggarwal and Saqib (2017) studied the impact of changes in selected macroeconomic variables on the Indian stock market. It was found that the index is affected by US GDP, S and P index, Gold prices, Indian Wholesale price index, Fiscal deficit, and Exchange Rate.

Rajesh and Bhaskar (2015) This study examines the fluctuations in share prices of specific Indian manufacturing companies listed on the Bombay Stock Exchange. It concludes that market return, growth in market and industrial production positively impact stock returns at both the firm and industry levels, while increasing inflation negatively affects stock returns. Additionally, GDP is found to be insignificant but positively correlated with firm stock returns.

Joshi (2013) The study established that Gross Domestic Product growth, Foreign Institutional Investment flow, inflation, political stability, liquidity and changes in rates of interest are the key drivers of changes in Indian market.

SIGNIFICANCE OF THE RESEARCH

Technical analysis is the basis of Stock markets, yet there are some of the factors which have not been dis-

cussed in the reviews earlier made, that affect the market in spite of all correct data. Buy and sell levels of stocks have not been discussed. It is always advisable to master one rule while reading chart patterns. There are various factors that are spontaneous, on which there is no control, and affects the market like News, RBI policies, Pandemic, and many more.
Being an ex-employee of the State Bank of India, I got an opportunity to work with SBI Integrated treasury department, Mumbai. There I have worked at back-end support where I used to do settlements of all the deals made in cross currencies. I have closely seen the dealers doing trade and my curiosity to learn it started from there.
Second, COVID- 19 pandemic has taken many jobs, many businesses got ruined. It has an impact on share markets too. After the outbreak of COVID-19, the stock market came under fear as BSE Sensex and NSE Nifty fell drastically. It can be noted that after a massive correction after the WHO announced COVID-19 as a pandemic, markets have recovered swiftly and were near their all-time highs of January 2020. Even within the indices, the recovery was not just in heavyweight stocks but across the board, also 90 percent of the stocks on the NSE have yielded positive returns in 2020. In such a bad time stock market became a backbone for many new retailers. In March 2020, the Covid-19 virus started spreading in India, leading to the Central Government announcing a countrywide lockdown. This sent shivers down the stock markets, leading to a brutal sell-off and the Sensex fell drastically. At that time, no one, even in the wildest of their dreams would have thought that in less than a year, the Sensex would double and could reach its all-time high. Many new retailers entered the market. It gave employment and earnings to many. Today it's the need of youth to learn and know more about it for a better future. That's why I have taken up this topic. The citizens of developed countries like America, Japan, their share market is the second source of income. Every people there know about the share market. But in India, only a few know about the share market and are interested to invest. Thanks to the lockdown in COVID-19, when people were at home in their leisure time, they started reading about the share market but still, this number is very less as compared to the population of the country. If this number increases it will boost our economy.

OBJECTIVE

To study the inclusive factor that impact the Indian banking share market

HYPOTHESIS

The hypothesis is a very essential part of the research. It creates a strong base for research and development. A 'working hypothesis is a hypothesis that is constructed as a statement of expectations, linked to the exploratory research purpose in empirical investigation, and often used as a conceptual framework in qualitative research.
Hypotheses 1 (H_01): There is no inclusive factor that impact the Indian banking share market.

RESEARCH METHODOLOGY

The term "research methodology" refers to a method of conducting research. The research is carried out in a scientific manner. It exa mines the numerous steps that are commonly taken. The study aims at analyzing the price movements of selected Banks scripts. Data will be collected from trading of the equity market in NSE, various books, journals, magazines, and websites. The research would be both Qualitative and Quantitative in nature.
Statistical validation -For evaluating stock market return and profitability, emphasis on statistical valida-

tion techniques like paired t-test, Correlation and linear regression and Kruskal-Wallis test can be used depending upon the data collected.

Sample

The study is based on the Banks which includes a selection of both private sector banks and public sector banks that are listed in BANKNIFTY viz ICICI, Axis Bank, HDFC, SBI, Bank of Baroda and Kotak Mahindra Bank. This would be the probable sample size as it may vary according to the listing and delisting of stocks done by NSE.

Secondary Data

a. The study will be done with special reference to banking stocks in Indian social sector banks listed on the NSE.
b. For the purpose, analytical and descriptive research design has been adopted and selection of banks will be done randomly from the index through a simple random sampling technique.
c. The data will also be collected from various published and unpublished journals, books, newspapers, magazines, Government websites, etc.

EXPECTED CONTRIBUTION

Indian economy is rapidly growing and it has now acquired an important place in the global economy, and enough research has not been done so far on Indian markets, it made me take up research on the Indian banking sector, so that the outcome of the proposed research may be helpful to Indian investors and Indian Business/Financial Organizations to make better risk management and suffer no losses or minimize losses.

a. This research will help the Top management of the banking sector to take managerial and operational decisions efficiently as the ultimate goal of the Banks is to maximize profits and lower the losses. Their decisions affect the price of shares.
b. A better understanding of the banking stock will facilitate traders to allocate their financial resources to the most profitable investment opportunity. Most technical traders lose money in the stock market because of the lack of knowledge about the importance of caution a person should have in trading.
   A study on various factors that affect the traders during the market time is
   a) Risk Management
   b) Execution and Orders
   c) Trade Management
   d) Emotions
c. The study on fluctuations in the equity market due to government policies and other factors will help in understanding the equity market. Also, the investor will become cautious for the trading day before announcement.
d. Many types of research have been done by different researchers using either company-specific or macroeconomic variables but the present study will emphasize on comparative study between public sector banks and private sector banks that will help traders to decide where they could invest for maximum profits.
e. The upcoming researcher and learners can be benefited from this study.

SCOPE OF THE STUDY

The banking sector is one of the fast growing sectors in the country after adoption of banking reforms, with the adoption of liberalization policy. The stock market performance indicates the financial and fundamental performance of any company or institution. Hence, the present study is confined to the analysis of the performance of the selected bank stocks only in the Indian stock market.

CONCLUSION

1. Banks are considered as a backbone to the financial system and play an important role in the economic development of a nation. They act as intermediaries in channelizing funds from surplus units to deficit units to fully utilize the funds. An efficient banking system of nations has significant positive externalities which increase the efficiency of economic transactions in general.
2. Investors must also take into account various factors like the Government of India budget, company performance, political and social events, climatic conditions, etc. before any decision is made.
3. Equity analysis is the process of analyzing sectors and companies to advise professional fund managers and private clients on which shares to buy.

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