International Journal of Academic Research and Development
www.allstudiesjournal.com
ISSN: 2455-4197
Received: 14-03-2024, Accepted: 13-04-2024, Published: 28-04-2024
Volume 9, Issue 2, 2024, Page No. 42-45

How the Indian banking share market performs

Dr. Pushpa Dewangan
Principal & Head, Department of Economics, K.P. College Bandhapali, Sarangarh, Chhattisgarh, India

Abstract
The crucial role that the banking industry plays in the nation's economic development and its reaction to changes in macroeconomic conditions and policy is reflected in the performance of the Indian banking share market. Banking stocks have become important determinants of the equity market throughout time, impacted by market sentiment, reforms, and economic cycles. Initiatives for financial inclusion, digital transformation, and rising credit demand have all contributed to the impressive performance of Indian banking equities. Owing to superior asset quality, customer-focused tactics, and technological adoption, private sector banks like HDFC Bank and ICICI Bank have continuously outperformed. After battling with large non-performing assets (NPAs), public sector banks (PSBs) have improved as a result of bad loan settlements and ecapitalization. Banking stocks first fell as a result of the COVID-19 epidemic because of concerns about loan defaults and a slowing economy. However, the industry was revived by the post-pandemic recovery, which was aided by the Reserve Bank of India's (RBI) lenient policies and fiscal stimulus. Global monetary tightening, inflationary pressures, and the Russia-Ukraine crisis all contributed to short-term volatility but did not stop the sector's long-term development trajectory. Indian banks have proven resilient in the face of difficulties including rising interest rates and unstable geopolitical conditions. The industry continues to draw in both local and global investors because to its solid foundations, enhanced balance sheets, and emphasis on innovation. In conclusion, the combination of solid economic fundamentals, sectoral reforms, and growing investor confidence has produced outstanding performance from the Indian banking share market.

Keywords: Banking Industry, economic growth, financial expansion, stock market, Non-Performing Assets (NPA), equity analysis, regulatory changes

Introduction

The expansion of a nation's banking industry is strongly correlated with its economic growth as banks turn deposits into investments that bring in money for them. The banking industry has to embrace new technologies and be resilient enough to adapt to proactive regulatory changes. The world is always changing, and this is what drives the expansion of every industry. Banks have changed their services as a result of increased client demand and competition among themselves. The banks were able to attain financial expansion as a result. Following nationalization, banks in India are expanding quickly. The banking industry underwent reform, which boosted profits for both public and private banks. The main goal of reform is to synchronize financial policies in order to better prepare the system. The Reserve Bank of India, the country's top bank, does this by enacting monetary policies such as the capital adequacy ratio (CAR), reverse reporate, and repo rate. It also monitors non-performing assets (NPA). They gained international recognition due to the banking industry's steady expansion and strong financial results. Significant bank stock investment resulted from this.

An outline of the Indian Banking Industry & stock market

Rapid industrialization across many industries has encouraged people to invest, but it also means that investors must always be aware of the risk and potential rewards. India has made it easier for international businesses to satisfy the country's expanding economic needs. As a result, there is now more competition in the Indian banking industry. Its market potential is directly impacted by the banks' growth rate, risk exposure, and social profitability. Since the equities in the Indian banking industry are more appealing, they have become one of the most popular sectors of the Indian stock market.

At first, bank stocks were included in the BSE-Sensex, BSE-100, and BSE-500 indexes. The earliest and most well-known benchmark index, the Sensex, was created in 1986 and consists of the stocks of thirty prestigious corporations from a variety of industries.

NSE, which is based in Mumbai, Maharashtra, was founded in 1992. The Pherwani committee was advised by the Indian government to create the NSE in order to increase openness. It was the first exchange in the US to switch from paper-based trading to a cutting-edge electronic trading system, providing investors nationwide with simple trading options.

Three banks—SBI, ICICI Bank, and HDFC Bank—that serve as stand-ins for the equities of the banking industry are included in the NSE-Sensex. The twelve banks that make up 90% of the Nifty Bank index's total market capitalization are significantly capitalized and fairly liquidated. The list of the twelve banks is provided below by NSE India based on December 2021 closing prices.

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 way bank stocks perform on the stock market reflects their core values and their influence on the world economy. Global economic conditions were impacted by the 2008–09 global crisis, which led to changes in worldwide stock market indexes. Indian banks such as ICICI, SBI, and HDFC suffered at that time. The Sensex fell as a result of the three banks' stocks doing poorly. The banks were able to reclaim their position after March 2009 because to their solid financial performance, low non-performing assets (NPA) throughout the post-global crisis era, and the RBI's methodical intervention and monetary policy control. India's economy recovered from the effects of the financial and economic crisis before any other economy did. The COVID-19 pandemic had a negative effect on banks' operations because to a sharp decline in demand, decreased earnings, and production halts. Fear gripped the stock market following the COVID-19 outbreak, as the NSE Nifty and BSE Sensex dropped 38%. As a result, the whole stock market has lost 27.31% since the start of this year. It should be mentioned that markets quickly rebounded from a significant downturn, which also occurred when the WHO declared COVID-19 to be a pandemic, and were close to their highest points ever in January 2020. It was noted that the recovery had been widespread. Not only have large-cap stocks rebounded, but so have mid- and small-cap stocks (Tyagi Ajay, 2021).

Terminologies

1. **Bank:** A bank is a financial institution licensed to receive deposits and make loans.
2. **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
3. **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:** The study of many factors influencing the state of the economy in businesses and industrial groupings is known as fundamental analysis. The positional traders employ it.

2. **Technical Analysis:** Relates to the analysis of data produced by the market, including volume and prices, in order to predict the future course of price changes.

Technical analysis helps predict how stock prices may move. used by intraday traders for short-term investments.

Problem statement

In order to forecast future prices, equity research looks at market trends and price swings. Investors find it difficult to spot possibilities. This study focuses on a number of stock analysis techniques that help investors make the best buy or sell choices. Interest rates are dropping in the current economic environment, and stock market volatility has made investors uneasy. Choosing what to invest in is difficult. This is primarily because investments include inherent risks, which force investors to consider a number of factors before making a financial commitment. For this reason, the inquiry is based on the following problem.

1. Price fluctuations of the different banks stocks according to macroeconomic, international news, and customer sentiment.
2. Investing in stocks carries a significant degree of risk. Examining market risk and variables that affect share prices, such as governmental regulations and RBI monetary policies, in detail is crucial.
3. Every investor aspires to minimize risk and maximize reward. However, they would rather have a liquid investment. This also applies to bank stocks. Thus, the purpose of this study is to examine how bank stocks perform on the stock market and how factors affect price fluctuations.
4. Compared to other investments, it has been shown that investments in specific bank shares with a longer investment horizon have yielded noticeably greater returns. This does not, however, mean that all stock investments will provide returns that are comparable to high returns. As a result, it is crucial to use technical analysis to examine the upward or negative movements of the stock prices of certain banking companies. This would help traders find locations of entrance and exit.

Literature review

Financial institutions help the country by balancing the supply and demand of money in a fast-paced, dynamic society. Investing in savings plans offered by banks is frequently thought of as secure since it guarantees guaranteed returns. Due to the significance of banks for economic growth, several studies have been carried out by analysts and academics thus far. A few studies about bank stocks in the stock markets and other pertinent research have been reviewed in this context.

Ram Raja (2020) According to his study, COVID-19 upsets the world stock market as a whole. The global banking sector's collapse caused a great deal of volatility in the Indian stock market. Once more, the decline in FPIs lowers the Indian stock market's return. The author uses the history of unexpected events to classify COVID-19 as a "black swan" event. After doing a more thorough examination of the Indian stock market's past collapse and recovery, he concluded that economists are unable to predict economic recovery unless a strong public health system is in place.

Ravi (2020) The state of the Indian stock market prior to and after the COVID-19 epidemic has been compared by Ravi (2020). His research revealed that the NSE and BSE trade volumes peaked at 12,362 and 42,273 levels, respectively, around the beginning of January, before COVID-19, indicating favorable stock market conditions. The stock market saw severe upheaval after the COVID-19 pandemic, with the BSE Sensex and NSE Nifty falling by 38%. As a result, the whole stock market has dropped 27.31 percent since the year began. Due to transportation constraints, the stock of a number of industries, including hospitality, tourism, and entertainment, has dropped by about 40%.

In a paper published by Shezad et al. (2020) used the Asymmetric Power GARCH model to analyze the nonlinear behavior of the financial markets in the US, Italy, Japan, and China. The study verified that COVID-19 had a negative impact on S&P 500 stock returns. It did, however, have a negligible effect on the Nasdaq Composite index.

Pradhan and Dahal (2018) investigated the variables influencing Nepalese commercial banks' share prices. The effect of macroeconomic and company-specific factors on bank share prices was examined using multiple regression models. Fourteen banks' worth of data were chosen. The two variables that were shown to have the most effects on share prices were GDP and business size; hence, the larger the firm, the higher the EPS.

Aggarwal and Saqib (2017) investigated how the Indian stock market was affected by shifts in a few macroeconomic factors. The US GDP, S&P index, gold prices, Indian wholesale price index, fiscal deficit, and exchange rate were all shown to have an impact on the index.

Bhaskar and Rajesh (2015) The share price swings of particular Indian industrial firms listed on the Bombay Stock Exchange are investigated in this research. It comes to the conclusion that while rising inflation has a negative impact on stock returns, market return and increases in market and industrial production have a favorable influence on stock returns at the firm and industry levels. Furthermore, it is discovered that GDP and business stock returns have a positive but negligible correlation.

Joshi (2013) [6] 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

Although technical analysis is the foundation of stock markets, some aspects that have not been covered in previous studies still have an impact on the market even when all the data is accurate. There has been no discussion about stock buy and sell levels. When analyzing chart patterns, it is usually a good idea to learn one guideline. The market is impacted by a number of uncontrollable, spontaneous elements, such as news, RBI regulations, pandemics, and many more.

As a former State Bank of India employee, I was given the chance to work with the Mumbai-based SBI Integrated Treasury Department. I used to settle all of the cross-currency transactions when working in back-end support there. I became curious in the dealers' activities after observing them attentively.

Second, the COVID-19 outbreak has destroyed numerous companies and claimed countless jobs. Share markets are also affected. Fear gripped the stock market following the COVID-19 outbreak, as the NSE Nifty and BSE Sensex experienced sharp declines. It should be mentioned that markets quickly rebounded and were close to their all-time highs of January 2020 following a significant decline following the WHO's declaration of COVID-19 as a pandemic. The rebound was not limited to heavyweight firms within the indexes; 90 percent of the equities listed on the NSE saw positive gains in 2020. The stock market served as the foundation for several new merchants during this difficult period. The Covid-19 virus began to spread in India in March 2020, which resulted in A nationwide lockdown has been announced by the Central Government. The financial markets were rocked by this, resulting in a vicious sell-off and a sharp decline in the Sensex. Even in their wildest fantasies at the time, nobody could have predicted that the Sensex would double and maybe to its highest point ever in less than a year. The market saw a large influx of new shops. It provided many people with jobs and income. Young people nowadays must learn more about it in order to have better futures. I have taken up this subject for that reason. The second source of income for people in industrialized nations like America and Japan is their stock market. Everyone there is aware of the stock market. However, very few people in India are interested in investing and are aware of the share market. People began reading about the stock market during their free time at home due to the COVID-19 lockdown, although this number is still extremely small as compared to the nation's total population. Our economy will benefit if this figure rises.

Objective

To research the comprehensive factors influencing the share market for Indian banks.

Hypothesis

One of the most important aspects of the investigation is the hypothesis. It establishes a solid foundation for study and advancement. In empirical research, a "working hypothesis" is a hypothesis that is defined as a declaration of expectations, connected to the exploratory study goal, and frequently employed as a conceptual framework in qualitative research. First hypothesis (H01): The Indian banking share market is not impacted by any inclusive factors.

Research Methodology

The phrase "research methodology" describes a way of carrying out research. The study is conducted in a methodical way. It explains the many actions that are frequently performed. The purpose of the study is to examine the price changes of certain Bank scripts. Information will be gathered from a variety of books, periodicals, magazines, websites, and the NSE's equities market trading. Both qualitative and quantitative methods would be used in the study.

Statistical validation: Depending on the data gathered, statistical validation methods such as the Kruskal-Wallis test, correlation and linear regression, and the paired t-test can be used to assess stock market return and profitability.

Sample: A selection of public and private sector banks included in BANKNIFTY, including ICICI, Axis Bank, HDFC, SBI, Bank of Baroda, and Kotak Mahindra Bank, form the basis of the research. This would be the likely sample size, however it might change based on how the NSE lists and distributes equities.

Secondary data:

1. With particular reference to banking equities in Indian social sector banks listed on the NSE, the study will be conducted.
2. To achieve this, a descriptive and analytical study methodology has been chosen, and a basic random sampling approach will be used to choose banks at random from the index.
3. A variety of published and unpublished journals, books, newspapers, magazines, government websites, etc. will also be used to gather the data.

Expected contribution

The Indian economy is expanding quickly and has now taken a significant place in the global economy. Since there hasn't been enough research done on Indian markets, I decided to conduct research on the Indian banking industry in the hopes that the results of the proposed study will help Indian investors and business/financial organizations manage risk better and avoid or reduce losses.

1. Since banks' ultimate purpose is to maximize profits and minimize losses, this research will assist the top management of the banking industry in making managerial and operational choices effectively. The price of shares is impacted by their choices.
2. Traders may more easily direct their financial resources toward the most lucrative investment opportunity if they have a deeper grasp of banking stocks. The majority of technical traders lose money in the stock market as a result of their ignorance of the significance of exercising care when trading. An investigation on the several elements that influence traders during market hours is

a. Risk Management
b. Execution and Orders
c. Trade Management
d. Emotions

3. Understanding the equities market will be aided by research on changes brought about by governmental regulations and other variables. Additionally, the investor will start to exercise caution on the trading day prior to the release.
4. Numerous studies have been conducted by various researchers using macroeconomic or company-specific factors, but the focus of this study will be on comparing public and private sector banks to assist traders in determining where to invest for the highest returns.
5. This study can be beneficial to learners and future researchers.

Scope of the study

Following the implementation of banking reforms and the liberalization strategy, the banking industry is one of the fastest-growing in the nation. Any firm or institution's financial and fundamental performance may be inferred from the stock market's performance. The examination of the performance of the chosen bank stocks in the Indian stock market is the only focus of this study.

Conclusion

1. Banks are regarded as the foundation of the financial system and are crucial to a country's economic growth. In order to completely use the money, they serve as middlemen in directing them from surplus units to deficit units. Significant positive externalities from an effective banking system in a country boost the effectiveness of economic transactions overall.
2. Before making a choice, investors must also consider a number of issues, including the budget of the Indian government, the success of the firm, social and political events, the climate, etc.
3. The practice of examining industries and businesses to recommend which stocks to purchase to private consumers and professional fund managers is known as equity analysis.

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