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ANALYSIS OF INVESTMENT PROSPECT IN THE SECURITY MARKET: WITH SPECIAL REFERENCE TO SELECTED BANKING INSTITUTIONS IN INDIA

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ABSTRACT

This study analyses the investment environment in the Indian security market. The objectives of the study are to analyse the risk-return pattern of the selected banking securities and its future trend. Historical share price of ten banks were selected from 01-04-2005 to 31-03-2015. The study used Augmented Dickey Fuller Unit Root Test for checking the stationary of the price series; Standard deviation is used to find the share prices volatility and regression analysis for estimating the trend of return. The study found out that the select banks' return shows moderate positive trend except four public sector banks and their overall volatility is comparatively high.

KEY WORDS: *Closing Price, volatility, Augmented Dickey Fuller Unit Root Test, Share return.*

JEL Classification: G11, G12, G13, G17, G21

INTRODUCTION

Investment in the financial assets in India is very much uncertain due to dynamic economic environment. At the same time it is an inexorable truth that a good investment is the strong pillar of the development as well as the growth of a nation. Due to the change in the economic conditions, the cost of investment is getting higher.

Banking sector is influenced and going to see a drastic change which can be considered as another golden moment in the Indian banking history. This particular sector is the back bone of the country which brings changes in the Indian economic environment through self-changing. A lot of changes were witnessed from the past history of India like establishment of banks in the eighteenth century by the Britishers and its conversion in to Imperial bank and later in to State Bank of India. Formation of RBI, nationalization of banks and introduction of New Economic Policy were the golden events in the banking history. The growth of banking sector did not stopped there and it still continued its innovations and experiments through the establishment of new generation banking system known as ATMs & CDMs, online banking, E-banking, M-banking, plastic money etc.. All these facts show that the banking sector is still growing when compared to remaining sectors in India.

Hence this study is to determine the risk-return of the banking securities and its future trend along with the correlation between the select banking securities in India for the investment purpose.

REVIEW OF LITERATURE

Rajvardhan (2014)[1] in his findings he discussed that the time series analysis shows an overall rising trend at the aggregate investment level across all bank groups. The analysis underlines the fact that, there is little or no relevance to the macroeconomic environment in the strategic posture of banks.

Nemavathy (2014)[2] found out that the investments in stock market should always be done with a long term horizon which indicates that it takes time for stocks to bring desired return.

Elsamma Joseph (2001)[3] came forward with the objectives to study the various types of risks and hazards of investing in corporate securities and the criteria for investment decisions, found out that long run investing is the safe and sure path to wealth creation and experienced investors look at the efficiency of the management for making the investment. She suggests diversification as a criterion for reducing the risk and thereby helping to attain the expected rate of return.

Uma Sashikant (1998)[4] in her study, to examine risk and return characteristics of emerging markets and compare and contrast them with empirical evidence in the context of developed markets and the effect of diversification benefits from investing in emerging market, concluded that diversification benefit from emerging market is superior to those available in developed markets.

Suveera Benepal (1994)[5] has evaluated over or under priced stocks for stock selection and to devise an investment strategy giving a superior rate of return. She suggested that buy and holds strategy for a long time period will reduces commissions, brokerage expenses, transaction cost and the incidence of capital gain tax, and enhance the shares overall return.

STATEMENT OF THE PROBLEM

The Indian economy is poised for a faster growth rate especially in the banking sector. The banking sector in India has the advantage of access to one of the largest and most stable global financial networks. It has been strengthened by a series of financial and regulatory reforms implemented recently, such as flexibility in lending rates, gradual dilution of government holdings in public-sector banks, and the easing of restrictions on private-sector and international banks. Although the international banking giants of the US and elsewhere were shaken by the financial crisis, the Indian banking industry remained stable, due to the conservative approach adopted by Reserve Bank of India (RBI).

The Indian banking sector is going to witness the major growth with the entry of new players, like postal bank, payments banks, and small finance banks. Another important event which is going to be happened is the great merger of State Bank of India and its associate banks. This is followed by another merger, i.e., Bharathiya Mahila Bank with State Bank of India. These endeavors give the cue that the banking sector in India is going for a remarkable change and there by turning in to an incredible sector in the near future. This will definitely create an impact on its share price. This will pave way for the future investment opportunities in its securities along with its deposit services. So the researcher is trying to reveal the following objectives:

1. To know whether the banks' security price is stationary or not.
2. To analyse the risk-return pattern of the selected banking securities.
3. To estimate the future trend of the select banking securities.

METHODOLOGY

The study is purely based on secondary data[6]. Ten banks were selected on the basis of market capitalization in which five from public sector and five from private sector. Bank of Baroda, Bank of India, Canara Bank, State Bank of India and Punjab National Bank from the former and HDFC, ICICI, Federal Bank, Kotak Mahindra Bank and Axis Bank from the latter were selected. The study period is spread over to ten financial years starting from 01-04-2006 to 31-03-2016.

The study used Augmented Dickey Fuller Unit Root Test for checking the stationary of the price series; Standard deviation is used to find the share prices volatility and regression analysis for estimating the trend of return.

ANALYSIS AND RESULTS

Table 1: Test of Stationarity of Closing Price of Select Banks in India

Augmented Dickey-Fuller test				
Banks	Closing Price of Banking Securities			
	Level		1st Difference	
	t-Statistic	Probability	t-Statistic	Probability
Public Sector Banks				
BOB	-1.745	0.405	-10.184	0.000
PNB	-1.762	0.397	-9.779	0.000
SBI	-2.374	0.151	-9.590	0.000
BOI	-2.016	0.279	-11.728	0.000
Canara	-2.202	0.206	-8.857	0.000
Private Sector Banks				
Axis	-0.993	0.754	-9.646	0.000
HDFC	0.152	0.968	-11.336	0.000
ICICI	-1.960	0.303	-10.146	0.000
Kotak	0.214	0.972	-9.630	0.000
Federal	-1.581	0.489	-10.167	0.000

Source: Computed Secondary Data

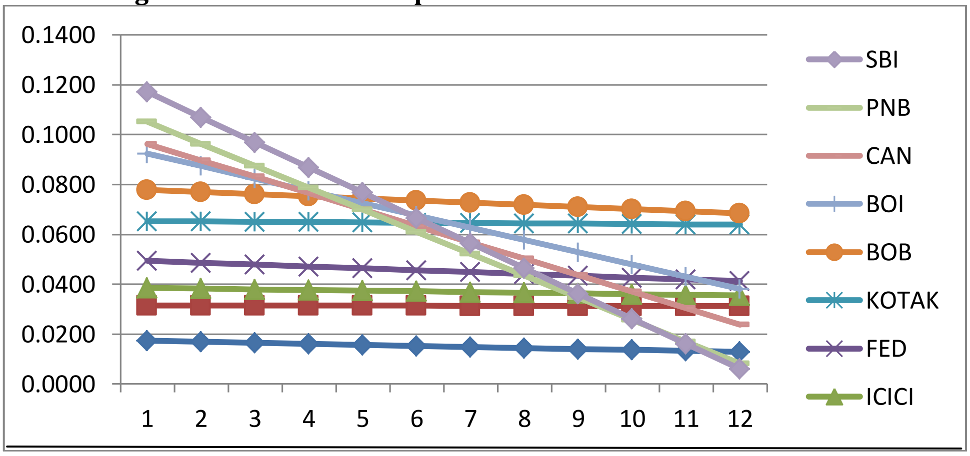
The table 1 shows the Stationarity test of closing price of select banks in India. The results fail to reject the null hypothesis of unit roots in their level form. It implies that there is no possibility of the series to be stationary around a constant mean or around deterministic linear trend. Therefore the first difference of all series is tested for stationary of the series. The results revealed that the closing price of statistics for closing price of select banks is significant at the 1% level indicating the rejection of null hypothesis of the existence of a unit root for each of the price series in their first difference.

Table 2: Trend of Share price Return of Select Banks in India

Year	Axis	HDFC	ICICI	FED	KOTAK	BOB	BOI	CAN	PNB	SBI
2007	0.0173	0.0141	0.0071	0.0108	0.0159	0.0125	0.0145	0.0040	0.0088	0.0120
2008	0.0169	0.0145	0.0068	0.0103	0.0166	0.0118	0.0104	0.0023	0.0066	0.0107
2009	0.0165	0.0149	0.0066	0.0099	0.0172	0.0110	0.0063	0.0007	0.0044	0.0094
2010	0.0161	0.0153	0.0063	0.0094	0.0178	0.0103	0.0023	-0.0010	0.0021	0.0081
2011	0.0157	0.0157	0.0061	0.0090	0.0184	0.0096	-0.0018	-0.0026	-0.0001	0.0068
2012	0.0153	0.0161	0.0058	0.0085	0.0190	0.0088	-0.0059	-0.0043	-0.0023	0.0056
2013	0.0149	0.0165	0.0055	0.0080	0.0196	0.0081	-0.0100	-0.0059	-0.0046	0.0043
2014	0.0145	0.0169	0.0053	0.0076	0.0203	0.0074	-0.0140	-0.0076	-0.0068	0.0030
2015	0.0141	0.0173	0.0050	0.0071	0.0209	0.0067	-0.0181	-0.0092	-0.0090	0.0017
2016	0.0137	0.0177	0.0047	0.0066	0.0215	0.0059	-0.0222	-0.0109	-0.0113	0.0004
2017	0.0133	0.0181	0.0045	0.0062	0.0221	0.0052	-0.0262	-0.0125	-0.0135	-0.0009
2018	0.0129	0.0184	0.0042	0.0057	0.0227	0.0045	-0.0303	-0.0142	-0.0157	-0.0022

Source: Computed Secondary Data

Figure 1: Trend of Share price Return of Select Banks in India



The table 2 and figure 1 shows the share price return trend of the select banks in India. From the figure, it is clear that all the banks in private sector and BOB from public sector are in moderate trend and the remaining banks show a downward trend from year to year.

Figure 2: Volatility of select Banks in India

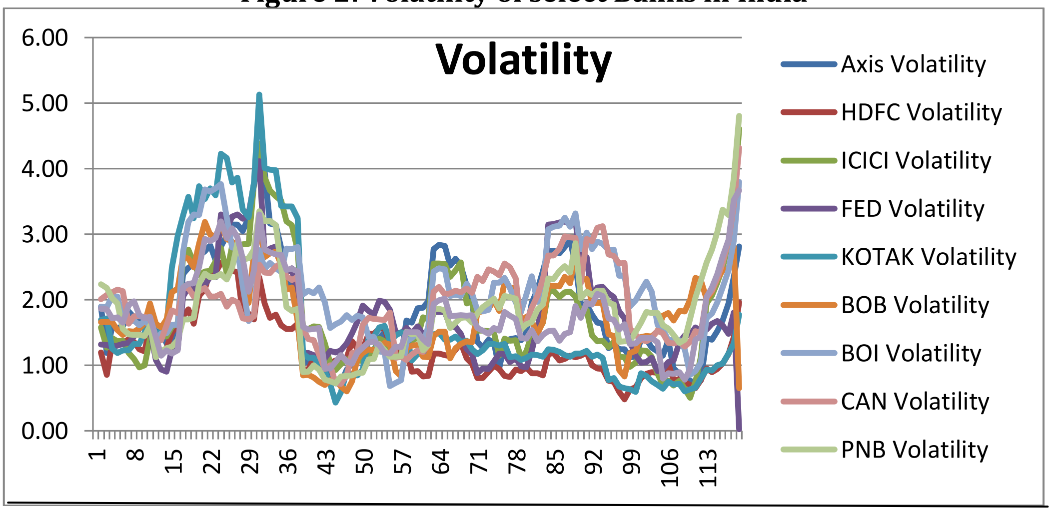


Figure 2 shows the volatility position of the select banks in India. Almost all banks show a high volatile profile. From the figure it can be seen that the Kotak Mahindra Bank is high volatile and Bank of Baroda shows the least volatility.

CONCLUSION

The study analysed the investment prospects of the security market in India with reference to selected banks on the basic of market capitalization. The unit root test concluded that the data is stationary. The trend of share return shows that overall performance is moderate positive except four banks from public sector. The volatility of the select banks is high and it shows that they can be used for short term investment.

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