

A FUNDAMENTAL ANALYSIS OF SELECTED INDIAN BANKING SECTOR STOCKS LISTED IN BANK NIFTY NSE

Ms. Revathi prathap,

PG Research Scholar, Department of Management Studies,
Global Academy of Technology, Bengaluru – 560 098

Dr. Sriyank levi,

Associate Professor, Department of Management Studies,
Global Academy of Technology, Bengaluru – 560 098

Abstract: The banking sector plays a vital role in the global economy, serving as the backbone of financial intermediation and providing essential services to individuals, businesses, and governments. Given its significance, understanding the underlying factors that influence the performance and stability of banks is crucial. This research project aims to conduct a comprehensive fundamental analysis of the banking sector, exploring key financial indicators, regulatory frameworks, and macroeconomic factors that shape the industry's dynamics. The study will employ a mixed-method approach, combining quantitative techniques such as financial ratio analysis, regression analysis, and trend analysis with qualitative assessments of banking regulations, market conditions, and management practices. By examining a diverse sample of banks from various regions and sizes, the research aims to capture a holistic understanding of the banking sector's fundamental drivers and the impact of external factors on its performance.

Keywords: Banking sector, Inflation rate, GDP rate, Unemployment rate, Ratio analysis

INTRODUCTION

This industry is critical to the global economy because it provides critical financial services to consumers, businesses, and governments. It performs go-betweens for people with extra funds and those in need of capital, enabling the usage of resources, and hence promoting economic growth. Banks have historically grown from simple institutions holding deposits and loans to complex corporations providing a lumbering of goods and services. Modern banks receive deposits, make loans, facilitate payments, provide investment and advisory services, manage assets, and provide insurance and other financial goods. This Industry is governed by a regulatory system that strives to promote stability, customer protection, and ethical behaviour. Furthermore, governments and international organizations create norms and standards to improve transparency, combat fraud, and reduce systemic risks.

Currently, in various countries, we can see lots of financial and technical innovations which drastically revolutionized the banking industry. The intention of mobile banking apps, and digital payment methods has transformed how people access and manage their accounts. FinTech (financial technology) firms have also challenged traditional banking by providing novel services such as peer-to-peer lending, robo-advice, and block chain-based solutions. In the current environment, the banking business faces a variety of difficulties and opportunities. Cyber security dangers and data privacy concerns endanger both banks and customers, necessitating ongoing investment in effective protection. Banks must also adapt to shifting client expectations and preferences by providing personalized and convenient digital experiences. Furthermore, globalization and the interconnectivity of financial markets necessitate that banks handle worldwide risks and comply with international rules.

STATEMENT OF PROBLEM

This sector of stocks are playing a particularly key role in the economy, and conducting a basic examination of it is necessary for investors, financial institutions, and regulators to make informed decisions. When undertaking a basic analysis of the banking industry, however, various problems and complications develop, leading to the following problem statement: "The banking sector's fundamental analysis faces significant challenges mainly because of the intricate nature of financial institutions, regulatory dynamics, accurately assess financial health, risk factors, and growth potential, thereby hindering effective decision-making and resource allocation."

OBJECTIVE OF THE STUDY

1. To study the selected private bank's condition in the Indian banking industry through fundamental analysis.

2. To compare the financial performance of the selected private banks.
3. To conduct a fundamental analysis of five company scripts to offer a better investment choice.

REVIEW OF LITERATURE

Amanjot Kaur Sodhi Simran Waraich (2017) Fundamental analysis investigates the various financial, economic, and industrial parameters that influence the risk-return characteristics of securities and aids in investment decision-making. Banking firms have a significant stake in the Indian economy and stock markets. Fundamental analysis can assist shareholders by providing relevant information on profitability and growth, allowing them to make informed investment decisions. Investors can use fundamental analysis to track the banking sector's past performance, recent changes, and future prospects.

Deepika Dhingra (2017) The study provides a brief overview of the Indian banking sector as well as a fundamental analysis of public sector banks. Fundamental analysis attempts to analyze various fundamental or basic factors that influence the risk-return profile of securities. The primary component of the fundamental approach is an examination of the economy, industry, and company fundamentals. The analyst should consider all three constituents that form distinct but distinct steps in making various decisions. Fundamental analysis can be used to assess the fundamental strength of the Indian banking sector.

Manisha Kaushal Arora, Joshita Dua (2017) Investment decisions are becoming increasingly important in all sectors, allowing investors to gain a better understanding of risk. The ability to 'analyze cash' allows for a systematic and meaningful evaluation of the internal and external factors that influence revenue. As the Indian economy has opened doors for multinational corporations, the Indian banking industry has undergone dramatic changes and is facing stiff competition from new products and services. The IPOs in the banking sector are fantastic. An in-depth comparative analysis of profitability ratios can be used to conduct a thorough analysis of the banking sector. The current study contrasts the profitability ratios of two major Indian banks: SBI and HDFC. One private bank and one public bank have been chosen for research.

Partha Mohanram, Sasan Saiy, Dushyant kumar Vyas (2017) In this study, we investigate whether investors can improve their ability to screen U.S. bank stocks by adopting a fundamental analysis-based approach. We construct a bank fundamentals index (BSCORE) based on fourteen bank specific valuation signals, and first document a positive association between BSCORE and future profit ability changes (one year-ahead Δ ROE and Δ ROA). We further observe a positive relation between BSCORE and current and one-year ahead stock returns implying that although the stock market recognizes the implications of BSCORE in current returns, the contemporaneous return adjustment is incomplete. Our main analysis focusses on a trading strategy based on portfolios sorted on BSCORE.

Silpa K S, Arya Mol, Dr A S Ambily (2017) Before making any investment decisions, every investor should educate themselves on the stock market. Fundamental analysis or technical analysis can be used to analyse the capital market. The purpose of this paper is to conduct a fundamental analysis of selected IT companies listed on the NSE. The fundamental analysis is broken down into three sections. Economic analysis is concerned with fundamental factors such as GDP, IIP, fiscal deficit, inflation, current account deficit, and so on. An examination of the industry The Indian IT sector is examined in terms of entry barriers, industry type, government intervention, and Porter's five force model.

RESEARCH DESIGN

RESEARCH TECHNOLOGIES: The study inquiry is both descriptive and analytical in nature. The primary goal of descriptive research is to explain the situation as it currently exists. The primary feature of a descriptive study is that the researcher has no control over the variables. This methodology is best suited to the study of fundamental analysis. The goal of the analysis is to determine the worth of stocks.

DATA COLLECTION METHOD: The secondary methods were used for data collection. Most of the data is gathered from journals, company annual reports, moneycontrol.com, and other related websites.

HYPOTHESIS

H₀ : There is no significant difference between the performance and selected banks.

H₁ : There is a significant difference between the performance and selected banks.

SAMPLE SIZE: Five companies from the Indian banking sectors that have been listed on the BSE and NSE for the previous Five years, from 1 of April 2018, to 31 March 2022. EIC Model is performed. Exchanges For this investigation, the following Banking companies were chosen:

1. SBI
2. Bank of Baroda
3. Canara bank
4. Punjab National Bank
5. Union Bank of India

TECHNIQUE USED: Data selection for this inquiry is done using a convenience sample approach. Based on market capitalization, the top five banking companies are selected among those listed on India's two main stock exchanges and one way ANOVA and Correlation is performed to see the performance of each Bank.

STATISTICAL METHOD: The data is evaluated with the commonly used tool of ratio analysis. Ratio analysis is a method for examining and evaluating general financial information in order to determine profitability. Secondary data is examined using economic and industry research.

Tables and charts are widely used. Ratios for this year are calculated and compared to previous years. t-test will be used to check the difference in performance amongst the private banks.

DATA ANALYSIS AND INTERPRETATION

GROSS DOMESTIC PRODUCT(GDP)

TABLE SHOWING INDIA'S GDP RATE ANALYSIS

Years	2018	2019	2020	2021	2022
Inflation rates	5.99	4.75	-5.61	8.86	7.91
Variation in %	-0.45	-1.73	-9.34	14.55	-0.33

Analysis: The table provides a summary of India's GDP rate analysis for the years 2018 to 2022. In terms of inflation rates, we observe a fluctuating pattern. India's GDP rate analysis reveals a fluctuating trend. Inflation rates ranged from 5.99% in 2018 to 4.75% in 2019, followed by a significant drop to -5.61% in 2020 due to the pandemic.

However, a strong recovery occurred in 2021, with an inflation rate of 8.86%. The variation percentages also demonstrate notable changes, including a 14.55% growth in 2021 and a slight decline of -0.33% in 2022.

BANKING INDUSTRY ANALYSIS

TABLE SHOWING ANNUAL REPORTS & FINANCIAL SUMMARY OF INDIAN BANKS

Year	2018	2019	2020	2021	2022
Total income	19519.48	21067.70	24717.43	45185.04	45771.68

Analysis: The table presents the annual reports and financial summary of Indian banks for the years 2018 to 2022, focusing on total income. The total income of Indian banks witnessed a steady increase during this period.

In 2018, the total income amounted to 19,519.48 units, which grew to 21,067.70 units in 2019. A significant rise occurred in 2020, with the total income reaching 24,717.43 units. The year 2021 marked a substantial surge in total income, reaching 45,185.04 units.

The upward trend continued in 2022, with the total income further increasing to 45,771.68 units. These figures highlight the overall growth and financial strength of Indian banks over the years.

RATIO ANALYSIS

RETURN ONE QUITY RATIO (ROE):

TABLE INDICATING BANK RETURN ONE QUITY RATIO FOR THE LAST FIVE YEARS

RETURN ONE QUITY RATIO OF INDIAN BANKS FOR THE PAST FIVE YEARS					
Years	SBI	Bankof Baroda	Canara Bank	PNB	UnionBank
2018	-3.37	-5.60	-14.51	-32.85	-20.90
2019	0.39	0.94	1.16	-24.20	-12.15
2020	6.95	0.76	-6.78	0.58	-9.46
2021	8.86	1.07	5.05	2.41	4.87
2022	12.33	8.46	9.85	3.90	7.94
AVERAGE	5.03	1.12	-5.23	-50.16	-29.7

ANALYSIS: The table provides the Return on Equity (ROE) ratio for Indian banks over the last five years. ROE is a measure of profitability and efficiency, indicating the return generated on shareholders' equity. From 2018 to 2022, State Bank of India (SBI) consistently displayed the highest ROE, with a significant increase from 3.37% in 2018 to 12.33% in 2022. Bank of Baroda and Canara Bank also showed improvement in their ROE ratios over the years. However, Punjab National Bank (PNB) and Union Bank struggled with negative and lower ROE values. On average, SBI had the highest ROE of 5.03%, while BPB and Union Bank had the lowest average ROE of -50.16% and -29.7%, respectively. The data indicate varying levels of profitability and efficiency among the Indian banks during the analyzed period.

CONCLUSION

Fundamental analysis can help you make an investment decision. This examination focuses on the company, industry, and economy. A drop in GDP during the last five years is a bad sign for an economy. As a result of decreasing inflation rates, the economy has witnessed an efficient rate flow over the last five years. Finally, fundamental analysis is an important instrument for examining the banking sector. Investors and analysts can acquire significant insights into a bank's strengths, shortcomings, and growth potential by evaluating the key financial and non-financial aspects that drive its success. While fundamental analysis is an effective technique, it should not be used in isolation. Additionally, investors should examine and update their analysis on a frequent basis to respond to changing market conditions and new information.

REFERENCES

Rao, P. H., & Dutta, S. (2014). Fundamental analysis of the banking sector in India. *Indian Journal of Finance*, 8(9),47-56.

Chernysheva, S. (2022). Analysis of banking companies of Belgium banking sector using the fundamental analysis approach (Doctoral dissertation, Masary kovauniverzita, Ekonomicko-správnífakulta).

Sodhi, A. K., & Waraich, S. (2016). Fundamental analysis of selected public and private sector banks in India. *NMIMS Management Review*, 28(2),34.

Iyer, A. H., Agrawal, P., & Painter, K. (2020). Fundamental Analysis of Selected Private and Public Bank Sectors in India. *International Journal of Management (IJM)*,11(12).

Dhingra,D.(2013). Fundamental Analysis of Public Sector Banks. *International Journal of Management and Social Sciences Research*, 2(6), 19-27.