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Exploring the Impact of Financial Performance on Stock Price Fluctuations in India's Banking Sector

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ABSTRACT

Investors, market analysts, and policymakers are all very interested in how financial performance and stock price volatility are correlated in the banking industry. This research intends to provide light on the dynamics of the Indian banking sector and add to our understanding of how financial performance indicators affect stock prices by examining the chosen public sector banks. The goals of the study include a thorough examination of the financial results of the chosen institutions over a five-year period. In order to evaluate the banks' profitability, asset utilisation, and efficiency, important financial metrics including net profit margin, return on assets, and return on equity will be looked at. Three well-known public sector banks in India make up the sample size: Punjab National Bank, Canara Bank, and State Bank of India. Due to the fact that these banks were picked based on their market value, different levels of the banking sector are represented. In order to get a more comprehensive picture of the banking industry, the study includes banks with various sizes and levels of market participation. The five-year coverage term runs from 2018–19 through 2022–23. This span of time enables a thorough examination of the financial performance and stock price changes of the banks, taking into account both pre- and post-pandemic periods. The study can identify trends, patterns, and prospective changes in the relationship between financial performance and stock prices by analysing data spanning several years.

Keywords : Bank, Stock Price, Financial Performance, State Bank of India, Canara Bank, Punjab National Bank

INTRODUCTION

The Indian banking industry holds a significant place in the country's economic landscape, playing a pivotal role in facilitating financial transactions, supporting economic growth, and promoting financial inclusion. The history of the Indian banking industry is a tale of evolution and adaptation, closely mirroring the nation's socio-economic changes over the years.

The origins of banking in India can be traced back to the early 19th century, during the British colonial era. The Bank of Bengal, Bank of Bombay, and Bank of Madras, collectively known as the Presidency Banks, were among the first formal banking institutions established in India in 1806. These banks primarily catered to the needs of British traders and administrators.

However, the real transformation of the Indian banking sector began with the establishment of the Reserve Bank of India (RBI) in 1935. The RBI became the central authority responsible for regulating and supervising the banking system. The years following India's independence in 1947 witnessed significant changes, including the nationalization of major banks in 1969 and 1980. These nationalizations aimed to extend banking services to rural areas and promote financial inclusion.

In the 1990s, India embarked on a path of economic liberalization, which led to the introduction of private and foreign banks. This liberalization opened up the banking sector to competition, encouraging innovation and modernization. It also paved the way for the establishment of new-generation private banks and the entry of international banking giants.

Today, the Indian banking industry boasts a diverse landscape comprising public sector banks, private sector banks, foreign banks, regional rural banks, and cooperative banks. It plays a crucial role in channeling funds for various sectors of the economy, including agriculture, industry, services, and retail. The industry's resilience and adaptability have allowed it to weather various economic challenges while contributing significantly to India's growth story.

In recent years, technological advancements have brought about a digital revolution in Indian banking, making financial services more accessible and convenient for customers. The industry continues to evolve, guided by regulatory changes, customer preferences, and global best practices, as it strives to meet the diverse financial needs of India's burgeoning population.

LITERATURE REVIEW

An investigation that was carried out by Singh, A., and Singh, A. (2019) was given the title "Financial Performance and Stock Price Volatility: Empirical Evidence from Indian Manufacturing Companies." According to the authors' findings, a significant positive association exists between financial performance metrics such as return on assets, return on equity, and net profit margin, and the volatility of stock prices. They came to the conclusion that improved financial performance is directly correlated with increasing stock price volatility, which is an indication of increased investor interest and market response.

In their research paper titled "Financial Performance and Stock Prices: A Study of the Indian Pharmaceutical Industry," Das, D. (2020) conducted research on the connection that exists in the Indian pharmaceutical business between financial performance and stock prices. The author noted a favourable correlation between stock prices and other financial ratios, such as the net profit margin, earnings per share, and return on investment. According to the findings of the study, high levels of financial performance have a beneficial influence on stock values in the pharmaceutical industry.

In their study article titled "Financial Performance and Stock Market Valuation: Evidence from Indian Banks," Gupta, Tiku, and Tiku, Gupta (2021) investigated the connection between a company's financial success and its stock price in the context of the Indian banking industry. The writers utilised regression analysis and discovered a substantial positive link between financial performance metrics such as return on assets, return on equity, and stock market valuations. This was proven to be the case when the authors examined the data. According to the findings of the study, increased financial performance leads to higher stock market valuations in the banking sector.

The authors of the paper, Choudhury, R., and Datta, S. K. (2022), titled their work "Impact of Financial Performance on Stock Prices: Evidence from Indian IT Companies." The authors conducted research to determine whether or not there was a correlation between financial performance parameters, such as gross profit margin and net profit margin, and stock prices in the Indian information technology industry. According to the findings of the study, there is a correlation between financial performance and stock prices; this suggests that increased financial performance has a favourable influence on stock market valuations in the information technology industry.

In their work titled "Financial Performance and Stock Price Volatility: A Study of the Indian Automobile Sector," Rath, A., and Das, A. (2023) looked at the connection that exists between financial success and the volatility of stock prices within the context of the Indian automobile sector. Using panel data analysis, the authors came to the conclusion that there is an inverse connection between volatile stock prices and several measures of financial success, such as operating profit margin and return on equity. According to the findings of the study, improved financial performance in the automotive industry correlates to less fluctuation in stock prices.

RESEARCH OBJECTIVES

To assess the financial performance of three chosen banks.

To investigate how the financial performance of these three banks influences their stock prices.

DATA ANALYSIS

1. NET PROFIT MARGIN (%)

NET PROFIT MARGIN (%)					
COMPANY	2022-23	2021-22	2020-21	2019-20	2018-19
State Bank of India	15.12	11.49	7.69	5.63	0.35
Canara Bank	12.56	8.18	3.69	-4.56	0.74
Punjab National Bank	2.94	4.61	2.5	0.62	-19.44

INTERPRETATION

The net profit margin for SBI has shown a steady increase over the years. In 2022-23, SBI achieved a net profit margin of 15.12%, which is the highest among the three banks. This indicates that SBI has been able to generate a higher percentage of profit from its revenue compared to previous years. The trend suggests improved financial performance and profitability for SBI.

Canara Bank's net profit margin has also been consistently increasing over the years. In 2022-23, Canara Bank recorded a net profit margin of 12.56%, which is higher than the previous year. While it is lower than SBI, Canara Bank still demonstrates a healthy profit margin. The positive trend indicates an improvement in Canara Bank's profitability and financial performance.

PNB's net profit margin has fluctuated over the years, with some years showing negative margins. In 2022-23, PNB achieved a net profit margin of 2.94%, which is lower than the previous year. PNB has faced challenges in maintaining consistent profitability, as evidenced by the negative margin in 2019-20 and a significantly low margin in 2018-19. The bank needs to focus on improving its profitability to match the performance of SBI and Canara Bank.

2. RETURN ON ASSETS (%)

RETURN ON ASSETS (%)					
COMPANY	2022-23	2021-22	2020-21	2019-20	2018-19
State Bank of India	0.91	0.63	0.45	0.36	0.02
Canara Bank	0.78	0.46	0.22	-0.3	0.04
Punjab National Bank	0.17	0.26	0.16	0.04	-1.28

INTERPRETATION

SBI has consistently maintained a positive ROA over the years. In 2022-23, SBI achieved an ROA of 0.91%, which is higher than the previous year. This indicates that SBI has been able to generate a higher return on its total assets. The increasing trend in ROA suggests improved asset utilization and efficiency for SBI.

Canara Bank's ROA has also shown a positive trend over the years, with some fluctuations. In 2022-23, Canara Bank recorded an ROA of 0.78%, which is higher than the previous year. Although lower than SBI, Canara Bank still demonstrates a reasonable return on its assets. The positive trend indicates improved asset utilization and efficiency for Canara Bank.

PNB's ROA has varied over the years, with some fluctuations in its performance. In 2022-23, PNB achieved an ROA of 0.17%, which is lower than the previous year. PNB has faced challenges in consistently generating a high return on its assets. The bank needs to focus on improving its asset utilization and operational efficiency to enhance its ROA.

3. STOCK PRICE

Stock Price					
COMPANY	2022-23	2021-22	2020-21	2019-20	2018-19
State Bank of India	523.70	493.40	364.35	196.95	320.80
Canara Bank	284.50	227.60	152.25	90.40	291.95
Punjab National Bank	46.71	35.05	36.65	32.35	95.40

INTERPRETATION

SBI's stock price has shown an overall upward trend over the years. In 2022-23, the stock price of SBI was 523.70. The stock price has steadily increased from 2018-19 to 2022-23, indicating positive market sentiment and investor confidence in the bank. This suggests that SBI has been able to deliver favorable results and attract investors' attention.

Canara Bank's stock price has also shown an upward trend, but with some fluctuations. In 2022-23, the stock price of Canara Bank was 284.50. While the stock price has generally increased over the years, there have been periods of decline, especially in 2020-21. This indicates that the market perception of Canara Bank has varied, potentially influenced by external factors or the bank's performance.

PNB's stock price has experienced significant fluctuations over the years. In 2022-23, the stock price of PNB was 46.71. The stock price has shown a downward trend overall, with a substantial drop from 2018-19 to 2020-

21. This suggests that PNB has faced challenges in maintaining a positive market sentiment and investor confidence.

4. IMPACT OF NET PROFIT MARGIN (%) ON STOCK PRICES

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.398824
R Square	0.159061
Adjusted R Square	-0.12125
Standard Error	73.70177
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	3082.301	3082.301	0.567439	0.506004
Residual	3	16295.85	5431.951		
Total	4	19378.15			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	197.9406	38.41507	5.152682	0.014171	75.68675	320.1945
X Variable 1	4.277637	5.678639	0.753286	0.506004	-13.7943	22.3496

INTERPRETATION

H0 : There is no impact of net profit margin (%) on stock prices of selected 3 public sector banks of India.

Multiple R = 0.398824, which indicates that there is no linear relationship between net profit margin (%) on stock prices of selected 3 public sector banks of India.

From the ANOVA table, it can be seen that p-value is 0.506004 which is higher than specified α of 0.05. So null hypothesis is accepted and it concluded that there is no impact of net profit margin (%) on stock prices of selected 3 public sector banks of India.

5. IMPACT OF RETURN ON ASSETS (%) ON STOCK PRICES

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.372878
R Square	0.139038
Adjusted R Square	-0.14795
Standard Error	74.57402
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2694.301	2694.301	0.484475	0.53648
Residual	3	16683.85	5561.284		
Total	4	19378.15			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	200.1779	37.96461	5.272751	0.013298	79.35758	320.9982
X Variable 1	64.86013	93.1842	0.696042	0.53648	-231.694	361.4138

INTERPRETATION

H0 : There is no impact of return on assets on stock prices of selected 3 public sector banks of India.

Multiple R = 0.372878, which indicates that there is no linear relationship between return on assets on stock prices of selected 3 public sector banks of India.

From the ANOVA table, it can be seen that p-value is 0.53648 which is higher than specified α of 0.05. So null hypothesis is accepted and it concluded that there is no impact of return on assets on stock prices of selected 3 public sector banks of India.

CONCLUSION

Based on the secondary data analysis, it is concluded that

Different factors affect stock prices: It appears that these banks' stock prices are affected by variables besides net profit margin, return on assets, and return on equity. The stock prices and investor sentiment may not be immediately impacted by these financial indicators, despite the fact that they offer information on the banks' financial performance and profitability. External factors and market mood are important: Many other factors, such as market mood, economic conditions, industry trends, governmental changes, and investor perception, have an impact on stock prices. Compared to precise financial measurements, these variables may have a bigger effect on stock prices. additional elements influencing stock pricing When assessing a bank's stock, investors take a variety of aspects into account, including growth potential, market competition, management effectiveness, asset quality, capital adequacy, and general market circumstances. Compared to the particular financial indicators provided, these variables may have a more significant impact on stock prices. Future expectations are reflected in stock values, which are forward-looking and frequently represent both market expectations and a company's future prospects. When assessing stock prices, investors may take into account elements including potential for future growth, strategic objectives, market positioning, and general economic outlook.

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