A Study On Equity Analysis On Banking Sector Stocks At Zerodha Pvt Ltd

M. Prathyusha, Mr. Manukonda Shiva Mba , (Phd), Dr. K. Veeraiah (Mba,M.Phil,Ph.D,Ugc-Net)

1 student, 2 Assistant Professor ,3 HOD.

Marri Laxman Reddy Institute of Technology and Management Dundigal, Gandimaisamma, Medchal, Hyderabad, 500043, Telangana,

ABSTRACT

This study aims to conduct a comprehensive equity analysis of selected stocks in the Indian banking sector to evaluate their financial performance and investment potential. The banking sector plays a pivotal role in the economic development of the country and is closely monitored by investors for its consistent returns and market stability. The research focuses on both public and private sector banks, analyzing their performance over a five-year period (2020–2024) using key financial ratios, trend analysis, and fundamental valuation models such as the Discounted Cash Flow (DCF) and Price-to-Earnings (P/E) ratios. Secondary data has been sourced from financial statements, stock exchanges, and credible financial platforms. The study compares the financial health, profitability, and market valuation of the selected banks to identify investment-worthy stocks. Findings from the analysis provide valuable insights for investors, financial analysts, and portfolio managers, enabling them to make informed decisions based on quantitative and qualitative indicators. The research also highlights the impact of macroeconomic variables on banking stocks, offering a holistic view of the sector's equity performance.

1.1 INTRODUCTION

The banking sector serves as the backbone of a country's financial system, playing a critical role in economic growth and financial stability. In India, banks not only mobilize savings and facilitate credit creation but also act as key players in implementing monetary policy and ensuring the flow of capital across sectors. As a result, the performance of banks is often viewed as a barometer of overall economic health.

In recent years, the Indian banking industry has witnessed significant transformation due to regulatory reforms, technological advancements, digital banking initiatives, and evolving customer expectations. Despite facing challenges such as rising **non-performing assets** (NPAs), credit risk, and market volatility, the sector has shown resilience and adaptability. Given the dynamic nature of the financial markets, analyzing the equity performance of banking stocks becomes crucial for investors aiming to optimize returns while managing risks.

1.2 NEED FOR THE STUDY

The Indian stock market is a dynamic and complex environment influenced by a multitude of factors, including corporate performance, investor sentiment, and macroeconomic indicators. Among the various sectors, the **banking sector** holds a unique and influential position due to its direct linkage with monetary policy, credit flow, and economic development. With increasing participation of retail and institutional investors in equity markets, there is a growing need for robust analysis to support sound investment decisions.

1.3 OBJECTIVES OF THE STUDY

1. To evaluate the financial performance of selected public and private sector banks using key financial ratios such as Return on Equity (ROE), Net Interest Margin (NIM), and Capital Adequacy Ratio (CAR).

2. To analyze the stock price trends and market performance of the selected banking stocks over a defined period.

3. To assess the intrinsic value of banking stocks using fundamental valuation techniques such as Discounted Cash Flow (DCF) and Price-to-Earnings (P/E) ratio.

4. To compare the investment potential between public sector banks and private sector banks based on financial health and market indicators.

5. To provide investment recommendations to investors and stakeholders based on the overall equity analysis of the selected banks.

1.5 SCOPE OF THE STUDY

This study focuses on conducting a detailed equity analysis of selected banking sector stocks, covering both public and private sector banks in India. The analysis includes a comprehensive evaluation of financial performance, market behavior, and stock valuation over a defined time period. The scope of the study is outlined as follows:

- **Sectoral Focus:** The study is limited to the **banking sector**, excluding other financial institutions like NBFCs and insurance companies.

- **Comparative Analysis:** It covers a comparative evaluation between **public sector banks (PSBs)** and **private sector banks (PVBs)** based on key financial and market indicators.

- **Time Frame:** The study analyzes performance trends over a period of **five financial years (2020–2024)**, subject to data availability.

- **Parameters Studied:** Financial ratios such as Return on Equity (ROE), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), Price-to-Earnings (P/E) ratio, and others are considered for performance and valuation analysis.

- **Geographic Limitation:** The study is **limited to banks listed on Indian stock exchanges** (NSE/BSE), and hence focuses on the Indian banking sector only.

- **Target Audience:** The research is relevant to retail investors, financial analysts, portfolio managers, and academicians seeking insights into the banking sector's equity performance.

1.6 METHODOLOGY

Research Methodology is a systematic way of solving the problem. It includes the overall research design, the sampling procedure, data collection method and analysis procedure.

1.1 *Research Design*

The research design used in this study is Descriptive research. The major purpose of descriptive research is description of the state of affairs as it exists at present.

1.2 *Data Collection*

> ➤ The data for this study is Secondary Data.

> ➤ The data is collected from secondary sources such as various websites, journals, newspapers, books, etc.

1.3 *Source of Data*

The Study is based on the secondary data collected from NSE India Ltd.

1.4 *Sample Size*

Top seven banks on the basis of Capitalization (Indian Bank, South Indian Bank, Indian Overseas Bank, ICICI Bank, HDFC Bank, IDBI Bank, Canara Bank).

1.5 *Period of Study*

This is the study of risk-return analysis for the period of five years (2015-2016 to 2019-2020).

1.6 *Statistical Tool to be used*

> ➤ Rate of Return

> ➤ Sample Mean

> ➤ Standard Deviation

> ➤ Variance

1.7 LIMITATIONS OF THE STUDY

1. **Dependence on Secondary Data:**

   The study is based entirely on secondary data collected from annual reports, stock exchange websites, and financial databases. Any inaccuracy or inconsistency in the published data may affect the results.

2. **Limited Sample Size:**

   The analysis covers only a select number of public and private sector banks, which may not fully represent the entire banking industry in India.

3. **Time Period Constraint:**

   The study focuses on a fixed time frame (2020–2024). It does not consider recent or future developments beyond this period that may influence stock performance.

DATA ANALYSIS AND INTERPRETATION

INDIAN BANK

Table 4.1 Annual Rate of Return of Indian Bank

YEAR	OPENING PRICE	CLOSING PRICE	ANNUAL RATE OF RETURN	Growth Rate of Indian Bank
2020-2021	163.28	99.82	0.123	1.123
2021-2022	98.1	272.96	0.556	1.556
2022-2023	276.9	294.24	0.213	1.213
2023-2024	312.84	261.61	0.167	1.167
2024-2025	269.64	55.05	0.041	1.041
		TOTAL	1.1	6.1
		Mean(Total Annual Rate of Return / No of Years)		0.22

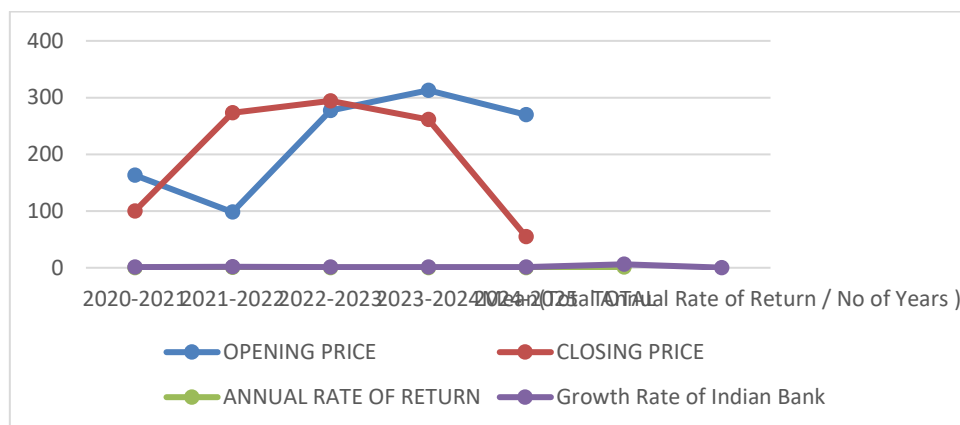Source: Annual Report of Indian Bank 2020-2021 to 2024-2025 from NSE India Ltd.


Fig. 4.1 Annual Rate of Return for Indian Bank

Interpretation

The above analysis of graph shows If an investor invest rupee 1 at the end of 2021, the investor would have earned rupees 6.1 at the end of 2025 i.e., the investor's total return is Rs.5.1.

Table 4.2 Standard Deviation of Indian Bank

YEAR	ANNUAL RETURN (P)	Q = P — AVERAGE ANNUAL RETURN	Q²
2020-2021	12.3	-9.7	94.09
2021-2022	55.6	33.6	1128.96

2022-2023	21.3	-0.7	0.49
2023-2024	16.7	-5.3	28.09
2024-2025	04.1	-17.9	320.41
TOTAL	99		1572.04
Variance ($\sum Q^2$/ n-1)			393.01
Standard Deviation			19.82
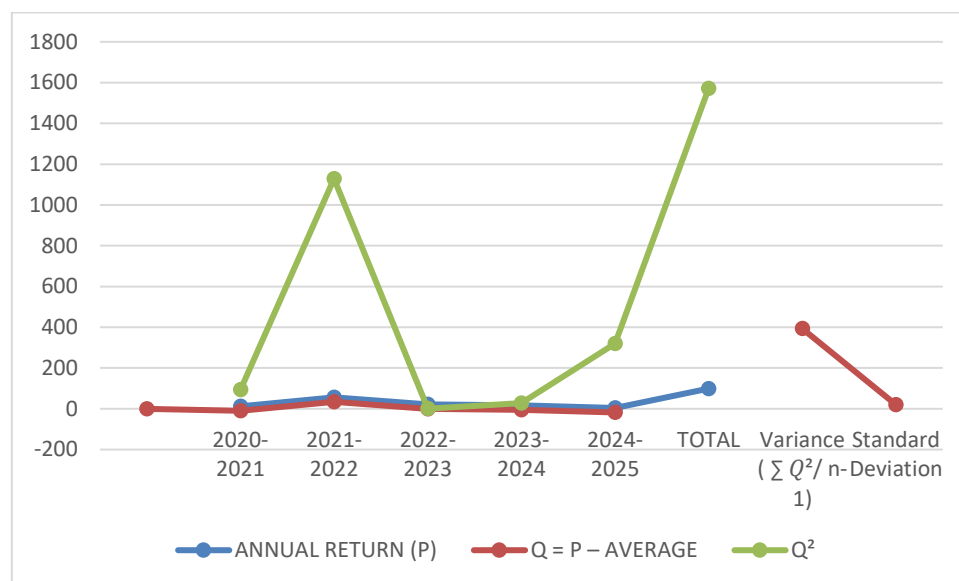
Fig. 4.2 Standard Deviation of Indian Bank

Interpretation

The above graph shows the Indian bank return deviates about 19.82% from the average

rate of return. So it is difficult to assess the future returns from the past returns.
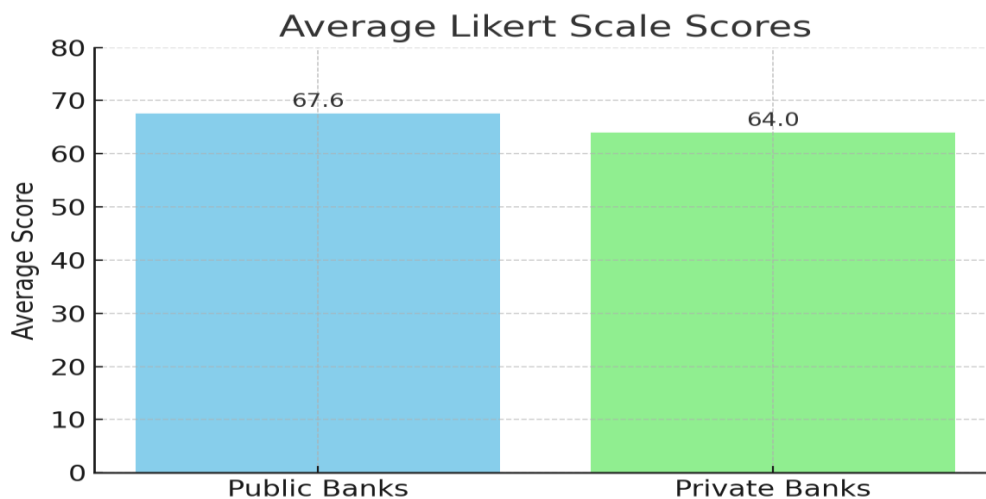
HYPOTHESIS TESTING

Null hypothesis (Ho):-

There is no significant difference between public sector banks and private sector banks.

Alternative hypothesis (H1):-

There is a significant relationship between public sector banks and private sector banks.

Likert Scale Responses: Public vs Private Banks

S.no	Likert Scale	Public Banks	Private Banks
1	Strongly Agree	60	85
2	Agree	55	78
3	Neutral	68	65
4	Disagree	75	52
5	Strongly Disagree	80	40
	Average	**67.6**	**64.0**

Here is the bar graph showing the average Likert scale scores for Public Banks and Private Banks. Let me know if you'd like to add more banks or change the style of the graph.

HYPOTHESIS TESTING:- Equity analysis of banking sector stocks.

 Interpretation:

Null Hypothesis (Ho):-

From the above analysis or testing of hypothesis(Ho), there is no significant diligence in the financial performance and stock valuation between public sector banks and private sector banks. The average of   equity analysis of Banking sector is   67.6% and the average of growth of financial performance is 64% the difference between public sector banks and private sector banks is 3.6%.

Hence, the null hypothesis is repeated.

Alternative (H1):-

From the above analysis of testing of hypothesis H1, there is a significant difference difference between public sector banks and private sector banks. The average of equity analysis banking is 67.6% and the average of growth financial performance is 64% the difference between public sector banks and private sector banks is 3.6%.

Hence, the null hypothesis is rejected

5.1 FINDINGS

1. Indian bank return deviates about 19.82% from the average rate of return. So it is difficult to assess the future returns from the past returns. Beta is more than 1 so it is more volatile than other banks. So it is high risk to invest in this security.

2. If an investor invest rupee 1 at the end of 2021 in Indian Bank, the investor would have been earned rupees 6.1 at the end of 2025 i.e., the investor's total return is Rs.5.1.

3. South Indian bank return deviates about 6.36% from the average rate of return. So it is difficult to assess the future returns from the past returns. Beta is more than one so it is more volatile than other banks. So it is more risk to invest in this security.

4. If an investor invests rupee 1 at the end of 2021, the investor would have been earned rupees 5.78 at the end of 2025 i.e., the investor's total return is Rs.4.78.

5. Indian overseas bank return deviates about 61.69% from the average rate of return. So it is difficult to assess the future returns from the past returns. Beta is more than 1 so it is more volatile than market. So it is more risk to invest in this security.

6. If an investor invests rupee 1 at the end of 2021 in Indian Overseas Bank, the investor would have been earned rupees 5.69 at the end of 2025 i.e., the investor's total return is Rs.4.69.

7. ICICI bank return deviates about 97.35% from the average rate of return. So it is difficult to assess the future returns from the past returns. Beta is more than 1 so it is more volatile in market. So it is more risk to invest in this security.

5.2 SUGGESTIONS

Investment in stock market is subject to limited market risk. So every investor should be aware of the risk.

Potentiality

Stock market is justified underground of potentiality. This is due to increasing volume, market expansion & rapid growth in comparison to cash market.

Benefits

There are several benefits of stock market. Among them, the major benefits are cheaper trading in comparison

to the cash market, interest stimulation, cash settlement and low brokerage cost. This would help to attract a number of investors.

Based on the Rate of Return, ICICI Bank and HDFC bank are best for investment. Since it has high Rate of Return compared to other banks.

Since HDFC Bank has low risk compared to ICICI Bank, in comparison, HDFC Bank is best for investment.

5.3 CONCLUSION

The analysis of testing the relationship between risk and return in the Indian stock market reveals that of all the different risk variables considered in the study, the distributional risk variables, variance and distribution, confirm the working of risk-return trade-off in the Indian context. Also, a positive association was exhibited between the security-market return correlation and the average rate of return during the period of study. The importance of beta as a measure of risk is also considered in the analysis, which shows that during the study period the beta values of the sample companies are stationary.

Hence it can be used for and considered as an important risk measurement in investment decision making process. It also exposes the relation between systematic risk and rate of return on equities in India. The presence of randomness of the return series of both monthly market and monthly security returns in India has proved that the Indian stock market is weakly efficient. It is noteworthy to express that the Indian capital market exhibits a positive risk- return relationship.

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